

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Taylor, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Taylor, Michigan

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Independent Auditor's Report

To the City Council
City of Taylor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Taylor, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Taylor Housing Commission (a discretely presented component unit), which reflect total assets of \$39,687,075 at March 31, 2006 and a net increase in net assets of \$363,901 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Commission, is based solely on the report of the other auditors. The other auditors' report, dated September 26, 2006, which includes the information for the Taylor Community Development Corporation (audited by other auditors as of June 30, 2006 with a report date of November 15, 2006), expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the City Council
City of Taylor, Michigan

The management's discussion and analysis, budgetary comparison schedule - General Fund, and the pension systems schedule of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taylor, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2006 on our consideration of the City of Taylor, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

December 12, 2006

City of Taylor, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Taylor, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

- State-shared revenue, our second largest revenue source, was reduced by approximately \$90,000 this year, as a result of mid-year budget cuts by the State of Michigan. While the constitutional portion of revenue sharing grew, the statutory portion decreased for the fifth consecutive year. The statutory portion, at \$3.5 million, represents a significant amount of at-risk revenue.
- Revenues from the 23rd District Court increased \$395,000 over the prior year amount, to a new annual total of nearly \$4.8 million. While the increased revenue is important, as a practical matter the City cannot continue to rely on this type of revenue source to finance day-to-day operations.
- The City's General Fund, the main operating fund of the City, operated with a structural deficit, spending substantially more than what it brought in from traditional revenue sources. With limited opportunities for revenue growth and rising expenditures, the General Fund relied on \$1.8 million of fund balance to balance the budget for the year.
- The City's golf courses and Sportsplex operated at deficits, substantially as a result of depreciation of assets donated by the TIFA component unit. The golf courses have recently cut costs substantially in order to operate more profitably before the effects of depreciation, and will receive additional assistance from the TIFA in conjunction with a deficit elimination plan. The Sportsplex continued to operate with losses, and is receiving additional funding support from the TIFA. In November 2006, the firm managing the complex on behalf of the City was terminated, and the City entered into an arrangement to lease the facility to an unrelated entity.
- Total net assets related to the City's governmental activities at the end of the year were \$154 million, a \$7 million increase over the prior year's \$147 million. Business-type net assets grew slightly to nearly \$114 million.
- The City completed construction of the Midtown Fire Station and new 23rd District Court, financed primarily by Taylor Building Authority bonds. Renovation of the former courthouse has been indefinitely postponed due to a lack of funding.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Taylor, Michigan's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Statements - The statement of net assets (deficit) and the statement of activities are both new and provide information about the activities of the City on a government-wide basis. They are designed to present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting, similar to a private-sector business, so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

Fund Financial Statements - The fund financial statements are presented after the government-wide statements. They present a short-term view, and tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's General Fund budget and the City's progress in funding its obligation to provide pension benefits to its employees. Other supplemental information is also presented in the form of combining statements for nonmajor governmental funds, fiduciary funds, and the Taylor Housing Commission component unit.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The City of Taylor as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2006 and 2005:

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Assets						
Current assets	\$ 29,144,017	\$ 24,623,910	\$ 6,547,467	\$ 7,776,510	\$ 35,691,484	\$ 32,400,420
Noncurrent assets	194,220,194	198,677,915	178,772,021	175,063,923	372,992,215	373,741,838
Total assets	223,364,211	223,301,825	185,319,488	182,840,433	408,683,699	406,142,258
Liabilities						
Current liabilities	26,016,836	23,674,529	8,101,812	8,049,655	34,118,648	31,724,184
Long-term liabilities	50,099,766	45,170,849	63,475,357	60,859,797	113,575,123	106,030,646
Total liabilities	76,116,602	68,845,378	71,577,169	68,909,452	147,693,771	137,754,830
Net Assets						
Invested in capital assets - Net of related debt	141,156,813	151,693,997	100,843,545	100,914,668	242,000,358	252,608,665
Restricted	7,223,452	5,650,252	13,356,709	12,229,133	20,580,161	17,879,385
Unrestricted (deficit)	(1,132,656)	(2,887,802)	(457,935)	787,180	(1,590,591)	(2,100,622)
Total net assets	<u>\$ 147,247,609</u>	<u>\$ 154,456,447</u>	<u>\$ 113,742,319</u>	<u>\$ 113,930,981</u>	<u>\$ 260,989,928</u>	<u>\$ 268,387,428</u>

The City's combined net assets totaled \$268,387,428, an increase of 2.8 percent from a year ago. As we look at the governmental activities separately from the business-type activities, we can see that the current level of unrestricted net assets for our governmental activities is a deficit of nearly \$2.9 million, reflective of the structural operating deficit. The increase in net assets is primarily a result of an increase in capital grants and contributions. The business-type activities unrestricted net assets increased by approximately \$1.2 million. Increases in charges for services and investment earnings were offset by a reduction in taxes related to the EPA levy.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year:

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenue						
Program revenue:						
Charges for services	\$ 12,277,850	\$ 12,595,473	\$ 17,905,555	\$ 18,536,554	\$ 30,183,405	\$ 31,132,027
Operating grants and contributions	8,258,407	8,919,543	-	-	8,258,407	8,919,543
Capital grants and contributions	4,835,752	12,283,095	498,800	851,227	5,334,552	13,134,322
General revenue:						
Property taxes	27,241,795	27,774,269	5,790,813	2,808,253	33,032,608	30,582,522
State-shared revenue	8,133,587	8,043,087	-	-	8,133,587	8,043,087
Unrestricted investment earnings	411,485	485,575	232,266	1,232,105	643,751	1,717,680
Rental income and fees	469,802	514,914	9,393	14,308	479,195	529,222
Gain on disposal of assets	3,398,335	84,821	17,294	15,141	3,415,629	99,962
Miscellaneous revenue	807,562	1,517,407	58,321	37,817	865,883	1,555,224
Total revenue	65,834,575	72,218,184	24,512,442	23,495,405	90,347,017	95,713,589
Program Expenses						
General government	13,079,831	11,713,075	-	-	13,079,831	11,713,075
Public safety	26,370,298	27,655,566	-	-	26,370,298	27,655,566
Public works	16,015,516	16,722,970	-	-	16,015,516	16,722,970
Community and economic development	1,614,873	1,857,624	-	-	1,614,873	1,857,624
Recreation and culture	4,975,837	4,917,533	-	-	4,975,837	4,917,533
Interest on long-term debt	2,820,411	2,142,578	-	-	2,820,411	2,142,578
Water	-	-	5,905,739	5,779,251	5,905,739	5,779,251
Sewer	-	-	8,302,580	8,503,359	8,302,580	8,503,359
Taylor Sportsplex	-	-	2,572,977	2,697,151	2,572,977	2,697,151
Golf courses	-	-	6,140,245	5,927,940	6,140,245	5,927,940
Ecorse Creek	-	-	337,133	399,042	337,133	399,042
Total program expenses	64,876,766	65,009,346	23,258,674	23,306,743	88,135,440	88,316,089
Change in Net Assets	\$ 957,809	\$ 7,208,838	\$ 1,253,768	\$ 188,662	\$ 2,211,577	\$ 7,397,500

Governmental Activities

The City's total governmental revenues were over \$72 million. The City experienced decreases in state-shared revenue and land sales, but experienced increased property taxes, operating and capital grants, court revenue, and miscellaneous revenue. The increase in property tax revenue resulted from continued growth in the City's tax base despite a temporary reduction in the Act 345 millage in support of the police and fire retirement system.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The City's total governmental expenses were steady at approximately \$65 million. There continue to be increases in public safety, public works, and health care costs. General government costs overall were reduced, however, aided by reductions in staff and a contribution to the General Employees' Retirement System that was nearly \$400,000 less than the previous year's contribution. The City closely monitored its spending in all areas, including hiring and capital outlay.

Business-type Activities

The City's business-type activities consist of the Water, Sewer, Ecorse Creek, Golf Courses, and Taylor Sportsplex Enterprise Funds. We provide water to residents from the Detroit Water System. We provide sewage treatment through a Wayne County-owned and operated sewage treatment plant. The City operates two outstanding golf courses. The Lakes of Taylor Golf Club is a championship caliber golf course designed to challenge golfers at every level. Taylor Meadows Golf Club is a links-style course, challenging yet still player-friendly. Both courses also provide food service and pro-shop operations as well. The Taylor Sportsplex is an indoor multi-function facility that features two ice arenas, a soccer arena, and a combination soccer/convention arena, as well as meeting areas and food service. For all business-type activities in 2006, operating revenues decreased over \$1 million, while net assets increased only \$188,662. The Sewer Fund accounts for the activity related to the City's participation in the Downriver Sewer System, including the tax levy mandated to pay for the City's share of debt issued by Wayne County to pay for the recent improvements to the system. The EPA levy was reduced by nearly \$3 million as a result of credits available at Wayne County.

The City of Taylor's Funds

Our analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Taylor as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond projects. The City's only major fund for 2006 is the General Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$19,067,000, and public works, which incurred expenses of approximately \$13,847,000 in 2006. Employee benefit expenses accounted for approximately \$11,847,000.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. Overall, the General Fund's revenue budget was decreased during the year by a net amount of approximately \$300,000. Overall actual revenues were less than the budget by \$1,237,000, or 2.2 percent. The property tax budget is initially projected based on conservative estimates of the taxable values, which are not yet finalized at the time of budget adoption. The largest unfavorable variances were in state and federal sources (\$243,000) and other revenue, including charges to other funds (\$741,000); favorable variances resulted in property taxes of \$153,000, and fees and permits of \$37,000.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The City's expenditure budget was increased approximately \$2.4 million by amendments during the year, partly as a result of the carryover of \$1,731,000 in unexpended items from the previous year. The City's departments overall stayed below budget, resulting in total expenditures of \$2.56 million (4.25 percent) below budget. The General Fund incurred unexpected capital outlay costs related to the completion of the municipal capital improvement project. The net result for the year was an increase in the General Fund's fund balance of \$1,318,000 greater than budgeted; however, most of that amount will carry over as reserved for expenditure in 2007.

Capital Asset and Debt Administration

At the end of 2006, the City, including its component units, had approximately \$404 million invested in a broad range of capital assets, including buildings, roads, water and sewer lines, parks, and machinery and equipment. The City finances much of its capital improvements through the issuance of long-term debt. The City of Taylor Brownfield Redevelopment Authority issued \$3.1 million in LTGO tax-exempt tax increment bonds to finance applicable portions of three separate Brownfield redevelopment projects.

The City's investment in capital assets, net of related debt, increased from approximately \$242 million to approximately \$253 million. In addition, the component unit's investment in capital assets, net of related debt, decreased from approximately \$18.5 million to approximately \$16.9 million. The City's total debt was approximately \$207 million, including approximately \$92 million of component unit debt. Of the component unit debt, approximately \$8 million relates to TIFA debt issued on behalf of the Lakes of Taylor Golf Club, and approximately \$13 million relates to TIFA debt issued on behalf of the Sportsplex. The TIFA has recently also been responsible for covering debt service on debt issued by the Taylor Building Authority that the Sportsplex operations have not been able to support. Debt service payments on all debt are approximately \$19.6 million annually for the City and component units in total. The overall debt, while manageable and within legal limits, does limit the flexibility of the City to respond to the future needs of the community.

Economic Factors and Next Year's Budgets

The General Fund continues to have a structural deficit of nearly \$1 million in that the operating expenditures exceed the operating revenues. For the fiscal year ending June 30, 2007, the possibility of reductions to the statutory portion of state revenue sharing continues to be a concern for municipalities throughout the state of Michigan, including the City of Taylor. The City is suffering from the effects of a slowdown in the housing market, which currently leaves many projects incomplete and as eyesores on the landscape of the community. In an effort to revive growth in its housing market and in the tax base, the City is in the process of completely revising its Master Plan and looking at new types of development. Certain studies by the Urban Land Institute and the Brookings Institute indicate that current patterns of community growth and development frequently result in "sprawl," which is harmful to communities and undermines broader environmental objectives. Accordingly, any future development in the City of Taylor will be predicated on "smart" growth. This future focus will include a balanced combination of planned growth through commercial, industrial, residential, and mixed density development projects.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Because of the income-limiting impact of Proposal A, the City needs to continue to watch its expenditure budgets very closely. The state-wide Tax Reform Act limited growth in taxable value on any individual property to the inflation factor of 3.3 percent for the 2006 tax year, and the limit will be 3.7 percent for the 2006 tax year. However, because of the tax reduction factors, not even the full benefit of inflation is realized in property tax revenue. With municipal revenue opportunities systematically limited by state law, the General Fund budget continues to depend on uncertain revenue such as state-shared revenue, land sales, cable franchise fees, and court fines to remain balanced. Given these strains on the budget, the City understands the need to reduce the workforce and save on personal services and employee benefits, as these are the largest portions of the budget. Approximately 70 percent of the City's General Fund costs are employee-related. While recent contractual wage increases for general employees are less than inflation at 1 percent, the previous administration negotiated public safety contractual wage increases over 6 percent. Health care costs continue to rise, so the City has negotiated co-pay arrangements and changes in service providers with the City's employees to help offset cost increases. To reduce the effects of rising pension costs, defined contribution pension plans are being offered to new employees rather than defined benefit plans. Unfortunately, pensions were enhanced by the prior administration a few years ago when pension fund earnings were high. The effect is now being seen in the pensions of new retirees and in the actuarial valuation. The new administration has acted decisively to reduce costs at the golf courses to increase profitability and negotiated a new lease agreement for the Sportsplex. Both actions reduce the potential for future negative affects on the General Fund. The City will soon be reviewing its accrued liability for other postemployment benefits and the funding options. As the costs of providing services to the citizens continue to rise in excess of normal inflation despite the systematic limitations on revenue growth, there is a feeling that the municipal finance system in the state of Michigan needs some changes in addition to changes that can be made at the local level.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the city clerk's office, 23555 Goddard Road, Taylor, MI 48180.

City of Taylor, Michigan

Statement of Net Assets (Deficit) June 30, 2006

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and investments (Note 3)	\$ 7,340,749	\$ 5,268,707	\$ 12,609,456	\$ 17,475,067
Receivables - Net:				
Taxes	2,615,650	-	2,615,650	-
Special assessments	7,433,936	-	7,433,936	-
Customers	-	3,300,422	3,300,422	-
Other	1,139,795	75,226	1,215,021	1,007,035
Internal balances	1,241,059	(1,241,059)	-	-
Due from primary government	-	-	-	309,877
Due from other governmental units	3,922,659	-	3,922,659	197,771
Due from component units	200,646	-	200,646	-
Deferred charges	-	-	-	4,769,552
Prepaid costs and other assets	729,416	-	729,416	660,701
Long-term advances to (from) other funds	1,750,000	(1,750,000)	-	-
Inventories	-	373,214	373,214	-
Restricted assets (Note 8)	976,295	11,240,491	12,216,786	3,016,419
Nondepreciable capital assets - Net (Note 5)	32,231,705	11,106,106	43,337,811	16,040,754
Depreciable capital assets - Net (Note 5)	163,719,915	154,467,326	318,187,241	26,730,357
Total assets	223,301,825	182,840,433	406,142,258	70,207,533
Liabilities				
Accounts payable	3,591,865	1,672,335	5,264,200	7,163,254
Accrued and other liabilities	6,377,489	1,130,322	7,507,811	1,364,440
Due to primary government	-	-	-	200,646
Due to other governmental units	519,890	748,835	1,268,725	739,926
Due to component units	64,064	245,813	309,877	-
Deferred revenue (Note 4)	7,342,042	-	7,342,042	197,257
Noncurrent liabilities:				
Bond premium	1,057,653	-	1,057,653	-
Debt due within one year (Note 7)	3,979,179	4,207,012	8,186,191	3,759,439
Debt due in more than one year (Note 7)	40,393,659	60,451,752	100,845,411	88,632,766
Compensated absences due within one year	1,800,000	45,338	1,845,338	-
Compensated absences due in more than one year	3,719,537	408,045	4,127,582	-
Total liabilities	68,845,378	68,909,452	137,754,830	102,057,728
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	151,693,997	100,914,668	252,608,665	16,932,030
Restricted:				
Construction and other expenditures	2,931,840	-	2,931,840	-
Major and local streets projects	1,194,498	-	1,194,498	-
Police forfeiture	326,129	-	326,129	-
Debt service	1,197,785	11,240,491	12,438,276	-
Sewer	-	988,642	988,642	-
Component units	-	-	-	3,053,557
Unrestricted	(2,887,802)	787,180	(2,100,622)	(51,835,782)
Total net assets (deficit)	<u>\$ 154,456,447</u>	<u>\$ 113,930,981</u>	<u>\$ 268,387,428</u>	<u>\$ (31,850,195)</u>

City of Taylor, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 11,713,075	\$ 6,953,520	\$ 2,146,926	\$ 438,569
Public safety	27,655,566	3,744,994	1,040,726	-
Public works	16,722,970	751,355	4,494,483	11,677,587
Community and economic development	1,857,624	181,722	874,601	-
Recreation and culture	4,917,533	963,882	362,807	166,939
Interest on long-term debt	2,142,578	-	-	-
Total governmental activities	65,009,346	12,595,473	8,919,543	12,283,095
Business-type activities:				
Water	5,779,251	6,061,859	-	93,023
Sewer	8,503,359	5,843,569	-	3,000
Taylor Sportsplex	2,697,151	1,771,872	-	543,625
Golf courses	5,927,940	4,601,213	-	211,579
Ecorse Creek	399,042	258,041	-	-
Total business-type activities	23,306,743	18,536,554	-	851,227
Total primary government	<u>\$ 88,316,089</u>	<u>\$ 31,132,027</u>	<u>\$ 8,919,543</u>	<u>\$ 13,134,322</u>
Component units:				
Local Development Financing Authority	\$ 500	\$ -	\$ -	\$ -
Tax Increment Financing Authority	12,144,468	-	-	-
Brownfield Redevelopment Authority	10,926,752	-	-	867,347
Downtown Development Authority	1,569,930	-	-	904,589
Housing Commission	15,483,724	6,014,890	7,681,373	1,617,606
Total component units	<u>\$ 40,125,374</u>	<u>\$ 6,014,890</u>	<u>\$ 7,681,373</u>	<u>\$ 3,389,542</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Rental income and fees				
Gain (loss) on disposal of assets				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year, as restated (Note 1)				
Net Assets (Deficit) - End of year				

Statement of Activities Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,174,060)	\$ -	\$ (2,174,060)	\$ -
(22,869,846)	-	(22,869,846)	-
200,455	-	200,455	-
(801,301)	-	(801,301)	-
(3,423,905)	-	(3,423,905)	-
(2,142,578)	-	(2,142,578)	-
(31,211,235)	-	(31,211,235)	-
-	375,631	375,631	-
-	(2,656,790)	(2,656,790)	-
-	(381,654)	(381,654)	-
-	(1,115,148)	(1,115,148)	-
-	(141,001)	(141,001)	-
-	(3,918,962)	(3,918,962)	-
(31,211,235)	(3,918,962)	(35,130,197)	-
-	-	-	(500)
-	-	-	(12,144,468)
-	-	-	(10,059,405)
-	-	-	(665,341)
-	-	-	(169,855)
-	-	-	(23,039,569)
27,774,269	2,808,253	30,582,522	10,651,379
8,043,087	-	8,043,087	-
485,575	1,232,105	1,717,680	990,790
514,914	14,308	529,222	-
84,821	15,141	99,962	(612,267)
1,517,407	37,817	1,555,224	392,401
38,420,073	4,107,624	42,527,697	11,422,303
7,208,838	188,662	7,397,500	(11,617,266)
147,247,609	113,742,319	260,989,928	(20,232,929)
\$ 154,456,447	\$ 113,930,981	\$ 268,387,428	\$ (31,850,195)

City of Taylor, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 2,955,493	\$ 4,385,256	\$ 7,340,749
Receivables:			
Taxes	2,615,650	-	2,615,650
Special assessments	7,433,543	393	7,433,936
Other	1,139,795	-	1,139,795
Due from other governmental units	3,263,013	860,292	4,123,305
Due from other funds	2,171,910	695,030	2,866,940
Prepaid costs and other assets	729,416	-	729,416
Long-term advance to other funds	1,750,000	-	1,750,000
Restricted assets	-	976,295	976,295
Total assets	<u>\$ 22,058,820</u>	<u>\$ 6,917,266</u>	<u>\$ 28,976,086</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 2,797,612	\$ 794,253	\$ 3,591,865
Due to other governmental units	583,954	-	583,954
Due to other funds	15,244	1,610,637	1,625,881
Due to pension funds	3,048,595	-	3,048,595
Accrued and other liabilities	2,560,690	-	2,560,690
Deferred revenue	8,027,745	55,905	8,083,650
Total liabilities	17,033,840	2,460,795	19,494,635
Fund Balances			
Reserved for:			
Construction and other expenditures	1,308,996	1,738,059	3,047,055
Long-term assets	1,750,000	-	1,750,000
Unreserved - Reported in:			
General Fund	1,965,984	-	1,965,984
Special Revenue Funds	-	1,520,627	1,520,627
Debt Service Funds	-	1,197,785	1,197,785
Total fund balances	<u>5,024,980</u>	<u>4,456,471</u>	<u>9,481,451</u>
Total liabilities and fund balances	<u>\$ 22,058,820</u>	<u>\$ 6,917,266</u>	<u>\$ 28,976,086</u>

City of Taylor, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets (Deficit) June 30, 2006

Fund Balance - Total Governmental Funds	\$ 9,481,451
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Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds	195,951,620
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Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	741,608
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Long-term debt	(44,372,838)
Compensated absences	(5,519,537)
Bond premium	(1,057,653)
Workers' compensation claims	(295,017)
Accrued interest	<u>(473,187)</u>

Net Assets - Governmental Activities	<u>\$ 154,456,447</u>
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City of Taylor, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 27,930,326	\$ 1,538,316	\$ 29,468,642
Licenses and permits	824,801	1,496,667	2,321,468
Federal sources	407,479	1,525,644	1,933,123
State sources	8,794,201	3,991,380	12,785,581
Charges for services	3,253,713	-	3,253,713
Fines and forfeitures	4,806,384	-	4,806,384
Interest and rent	736,951	3,124,085	3,861,036
DMA /911 revenue	-	816,515	816,515
Other	8,668,364	45,338	8,713,702
Total revenues	55,422,219	12,537,945	67,960,164
Expenditures			
General government	8,197,842	-	8,197,842
Public safety	19,067,017	-	19,067,017
Public works and capital projects	13,846,681	4,570,366	18,417,047
Community development	-	1,016,323	1,016,323
Recreation and cultural	3,221,849	-	3,221,849
General administration	862,960	-	862,960
Construction and development	-	739,139	739,139
Employee benefits	11,847,022	-	11,847,022
Capital outlay and other	-	4,057,934	4,057,934
Debt service	520,580	6,041,796	6,562,376
Total expenditures	57,563,951	16,425,558	73,989,509
Excess of Expenditures Over Revenues	(2,141,732)	(3,887,613)	(6,029,345)
Other Financing Sources (Uses)			
Transfers in	161,105	2,629,686	2,790,791
Transfers out	-	(2,790,791)	(2,790,791)
Proceeds of land, building, and equipment sales	169,351	-	169,351
Total other financing sources (uses)	330,456	(161,105)	169,351
Excess of Expenditures and Other Financing Uses Over Revenues and Other Financing Sources	(1,811,276)	(4,048,718)	(5,859,994)
Non-exchange Transactions	-	489,039	489,039
Net Change in Fund Balances	(1,811,276)	(3,559,679)	(5,370,955)
Fund Balances - Beginning of year	6,836,256	8,016,150	14,852,406
Fund Balances - End of year	<u>\$ 5,024,980</u>	<u>\$ 4,456,471</u>	<u>\$ 9,481,451</u>

City of Taylor, Michigan

Governmental Funds Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (5,370,955)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(3,043,858)
Capital contribution from TIFA and DDA is not a current financial resource	11,276,114
Proceeds from asset sales are recorded in the governmental funds; on the statement of activities, a gain is recorded	(84,530)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(85,649)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(193,799)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	4,415,882
Amortization of bond premium liabilities and deferred cost of financing reported as expense on the governmental funds when issued	42,263
Change in accrued interest on long-term debt is not recorded in the governmental funds	(39,097)
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	292,467

Change in Net Assets of Governmental Activities	\$ <u>7,208,838</u>
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City of Taylor, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Current Assets						
Cash and investments	\$ 3,820,549	\$ 1,213,368	\$ 13,617	\$ 141,168	\$ 80,005	\$ 5,268,707
Receivables:						
Customers	1,648,147	1,562,372	-	-	89,903	3,300,422
Other	65,955	-	7,106	2,165	-	75,226
Due from other funds	292,207	2,403,961	-	-	8,489	2,704,657
Inventories	167,580	622	34,315	170,697	-	373,214
Total current assets	5,994,438	5,180,323	55,038	314,030	178,397	11,722,226
Noncurrent Assets						
Restricted assets	-	11,240,491	-	-	-	11,240,491
Capital assets	23,035,856	92,585,715	27,374,766	22,209,423	367,672	165,573,432
Total noncurrent assets	23,035,856	103,826,206	27,374,766	22,209,423	367,672	176,813,923
Total assets	29,030,294	109,006,529	27,429,804	22,523,453	546,069	188,536,149
Current Liabilities						
Accounts payable	542,239	531,416	310,014	288,666	-	1,672,335
Due to other funds	2,865,441	497,818	21,692	405,624	155,141	3,945,716
Due to other governmental units	5,175	743,660	-	-	-	748,835
Due to component units	-	-	-	245,813	-	245,813
Accrued and other liabilities	543,154	521,263	81,253	438,035	-	1,583,705
Current portion of long-term debt	80,000	3,673,492	310,000	128,520	-	4,192,012
Total current liabilities	4,036,009	5,967,649	722,959	1,506,658	155,141	12,388,416
Noncurrent Liabilities						
Long-term advances from other funds	-	-	-	1,750,000	-	1,750,000
Long-term debt - Net of current portion	1,320,000	54,606,752	4,105,000	435,000	-	60,466,752
Total liabilities	5,356,009	60,574,401	4,827,959	3,691,658	155,141	74,605,168
Net Assets						
Invested in capital assets - Net of related debt	21,635,856	34,305,471	22,959,766	21,645,903	367,672	100,914,668
Restricted for debt service	-	11,240,491	-	-	-	11,240,491
Restricted for sewer grant expenditures	-	988,642	-	-	-	988,642
Unrestricted	2,038,429	1,897,524	(357,921)	(2,814,108)	23,256	787,180
Total net assets	\$ 23,674,285	\$ 48,432,128	\$ 22,601,845	\$ 18,831,795	\$ 390,928	\$ 113,930,981

City of Taylor, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Operating Revenues						
Water sales	\$ 4,850,985	\$ -	\$ -	\$ -	\$ -	\$ 4,850,985
Sewage disposal services	-	5,643,885	-	-	-	5,643,885
Charges for services	1,225,182	199,684	173,119	2,263,579	258,041	4,119,605
Sales of merchandise	-	-	351,174	2,177,634	-	2,528,808
Rental income	-	-	1,086,207	-	-	1,086,207
Other	18,599	19,219	161,372	160,000	-	359,190
Total operating revenues	6,094,766	5,862,788	1,771,872	4,601,213	258,041	18,588,680
Operating Expenses						
Cost of water operations	4,695,415	-	-	-	-	4,695,415
Cost of sewage disposal operations	-	5,480,371	-	-	-	5,480,371
Ecorse Creek user charge system	-	-	-	-	399,042	399,042
Cost of sales	-	-	179,236	904,069	-	1,083,305
Operation and maintenance	-	-	864,776	1,350,869	-	2,215,645
General and administrative	-	-	775,571	2,254,665	-	3,030,236
Other expenses	-	371	-	12,192	-	12,563
Depreciation and amortization	1,031,407	1,550,881	586,817	1,373,098	-	4,542,203
Total operating expenses	5,726,822	7,031,623	2,406,400	5,894,893	399,042	21,458,780
Operating Income (Loss)	367,944	(1,168,835)	(634,528)	(1,293,680)	(141,001)	(2,870,100)
Nonoperating Revenue (Expenses)						
Property taxes	-	2,808,253	-	-	-	2,808,253
Gain (loss) on disposal of assets	(2,501)	-	-	17,642	-	15,141
Interest income	151,256	1,076,260	-	-	4,589	1,232,105
Interest expense	(52,430)	(1,471,736)	(290,751)	(33,047)	-	(1,847,964)
Total nonoperating revenue (expenses)	96,325	2,412,777	(290,751)	(15,405)	4,589	2,207,535
Net Income (Loss) - Before donated assets	464,269	1,243,942	(925,279)	(1,309,085)	(136,412)	(662,565)
Donated Assets	93,023	3,000	543,625	211,579	-	851,227
Change in Net Assets	557,292	1,246,942	(381,654)	(1,097,506)	(136,412)	188,662
Net Assets - Beginning of year	23,116,993	47,185,186	22,983,499	19,929,301	527,340	113,742,319
Net Assets - End of year	<u>\$ 23,674,285</u>	<u>\$ 48,432,128</u>	<u>\$ 22,601,845</u>	<u>\$ 18,831,795</u>	<u>\$ 390,928</u>	<u>\$ 113,930,981</u>

City of Taylor, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Cash Flows from Operating Activities						
Receipts from customers	\$ 6,070,657	\$ 5,894,722	\$ 1,607,439	\$ 4,464,260	\$ 232,510	\$ 18,269,588
Payments to suppliers	(2,884,263)	(5,139,108)	(1,023,685)	(2,324,966)	(406,006)	(11,778,028)
Payments to employees	(1,942,823)	(451,916)	(775,571)	(2,413,478)	-	(5,583,788)
Internal activity - Payments to other funds	640,756	420,375	21,692	(220,947)	214,720	1,076,596
Other receipts	18,599	19,219	161,372	160,000	-	359,190
Net cash provided by (used in) operating activities	1,902,926	743,292	(8,753)	(335,131)	41,224	2,343,558
Cash Flows from Noncapital Financing Activities						
Activities - Proceeds from component units	-	-	-	300,000	-	300,000
Cash Flows from Capital and Related Financing Activities						
Purchase of capital assets	(520,778)	(121,969)	-	(3,476)	(5,000)	(651,223)
Proceeds from issuance of debt	150,000	-	-	-	-	150,000
Proceeds from sales of capital assets	153,001	-	-	225,975	-	378,976
Principal and interest paid on capital debt	(127,430)	(29,383)	(2,311)	(308,260)	-	(467,384)
Payments to the County	-	(2,808,253)	-	-	-	(2,808,253)
Property taxes	-	2,808,253	-	-	-	2,808,253
Net cash used in capital and related financing activities	(345,207)	(151,352)	(2,311)	(85,761)	(5,000)	(589,631)
Cash Flows from Investing Activities						
Interest received on investments	151,256	53,748	-	-	4,589	209,593
Net Increase (Decrease) in Cash and Cash Equivalents	1,708,975	645,688	(11,064)	(120,892)	40,813	2,263,520
Cash and Cash Equivalents - Beginning of year	2,111,574	567,680	24,681	262,060	39,192	3,005,187
Cash and Cash Equivalents - End of year	\$ 3,820,549	\$ 1,213,368	\$ 13,617	\$ 141,168	\$ 80,005	\$ 5,268,707
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ 367,944	\$ (1,168,835)	\$ (634,528)	\$ (1,293,680)	\$ (141,001)	\$ (2,870,100)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	1,031,407	1,550,881	586,817	1,373,098	-	4,542,203
Changes in assets and liabilities:						
Receivables	(83,637)	51,153	(3,061)	23,047	(25,531)	(38,029)
Due from other funds	101,428	(5,151)	-	-	63,533	159,810
Other assets	(19,789)	(5)	11,534	4,170	-	(4,090)
Accounts payable	(122,723)	(121,452)	8,793	(62,006)	(6,964)	(304,352)
Accrued and other liabilities	88,968	11,175	-	(158,813)	-	(58,670)
Due to other funds	539,328	425,526	21,692	(220,947)	151,187	916,786
Net cash provided by (used in) operating activities	\$ 1,902,926	\$ 743,292	\$ (8,753)	\$ (335,131)	\$ 41,224	\$ 2,343,558

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, \$211,579 of assets purchased by the TIFA were contributed to the Golf Courses and \$563,520 of assets were acquired through the issuance of a lease. In addition, \$295,000 of debt principal payments and \$248,625 of interest payments were contributed to the Taylor Sportsplex by the TIFA. The Water and Sewer Funds had assets contributed by developers in the amount of \$93,023 and \$3,000, respectively. The City also had several noncash transactions with the assets held at Wayne County, including interest earnings of \$1,022,512, debt payments of \$2,638,630, and interest payments of \$1,462,353.

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Taylor, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension and Other Employee Benefit Plans*	Agency Funds
Assets		
Cash and equivalents	\$ 2,106,120	\$ 708,915
Investments:		
Corporate bonds	10,605,196	-
U.S. government securities	31,347,112	-
Common and preferred stock	70,707,104	-
Asset-backed securities	2,517,183	-
Money market	3,468,447	675,000
Mutual funds	23,037,595	-
Due from other governmental units	-	972,915
Due from General Fund	3,072,024	-
Accrued interest	507,633	-
Total assets	147,368,414	<u><u>\$ 2,356,830</u></u>
Liabilities		
Due to other governmental units	-	\$ 2,196,564
Cash bonds and deposits	-	123,731
Tax collections distributable	-	36,535
Total liabilities	-	<u><u>\$ 2,356,830</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 147,368,414</u></u>	

* Balances are as of December 31, 2005 for the General Employees' Pension Plan and as of June 30, 2006 for the Police and Fire Retirement System.

City of Taylor, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension and Other Employee Benefit Plans*
Additions	
Investment income:	
Interest and dividends	\$ 4,843,411
Net increase in fair value of investments	5,143,106
Less investment expenses	<u>(408,036)</u>
Net investment income	9,578,481
Contributions:	
Employer	4,065,983
Employee	<u>1,276,965</u>
Total contributions	<u>5,342,948</u>
Total additions - Net of investment expenses	14,921,429
Deductions	
General and administrative	81,863
Benefit payments	<u>11,929,020</u>
Total deductions	<u>12,010,883</u>
Net Increase in Net Assets	2,910,546
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year, as restated (Note 1)	<u>144,457,868</u>
End of year	<u>\$ 147,368,414</u>

* Balances are as of December 31, 2005 for the General Employees' Pension Plan and as of June 30, 2006 for the Police and Fire Retirement System.

City of Taylor, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2006

	Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Totals
Assets						
Cash and investments	\$ 154,983	\$ 7,245,750	\$ 8,244,450	\$ 15,333	\$ 1,814,551	\$ 17,475,067
Accounts receivable	-	-	925,497	-	81,538	1,007,035
Deferred charges	-	-	-	-	4,769,552	4,769,552
Due from primary government	-	245,813	-	64,064	-	309,877
Due from other governmental units	-	-	-	-	197,771	197,771
Prepaid expenses and other assets	-	-	-	-	660,701	660,701
Restricted assets	-	-	-	64,659	2,951,760	3,016,419
Capital assets	<u>17,745</u>	<u>12,517,327</u>	<u>77,187</u>	<u>947,650</u>	<u>29,211,202</u>	<u>42,771,111</u>
Total assets	172,728	20,008,890	9,247,134	1,091,706	39,687,075	70,207,533
Liabilities						
Accounts payable	-	4,593,270	1,894,322	15,164	660,498	7,163,254
Deferred revenue	-	-	197,257	-	-	197,257
Due to other governmental units	-	739,926	-	-	-	739,926
Due to primary government	500	199,971	175	-	-	200,646
Tenant security deposits	-	-	-	-	371,991	371,991
Accrued and other liabilities	-	416,005	254,803	39,410	282,231	992,449
Long-term debt	<u>-</u>	<u>43,650,000</u>	<u>17,260,000</u>	<u>2,210,000</u>	<u>29,272,205</u>	<u>92,392,205</u>
Total liabilities	500	49,599,172	19,606,557	2,264,574	30,586,925	102,057,728
Net Assets (Deficit)						
Investment in capital assets - Net of related debt	17,745	12,517,327	77,187	947,650	3,372,121	16,932,030
Restricted	-	-	-	-	3,053,557	3,053,557
Unrestricted	<u>154,483</u>	<u>(42,107,609)</u>	<u>(10,436,610)</u>	<u>(2,120,518)</u>	<u>2,674,472</u>	<u>(51,835,782)</u>
Total net assets (deficit)	<u>\$ 172,228</u>	<u>\$ (29,590,282)</u>	<u>\$ (10,359,423)</u>	<u>\$ (1,172,868)</u>	<u>\$ 9,100,150</u>	<u>\$ (31,850,195)</u>

* Balances are as of March 31, 2006 for Housing Commission and as of June 30, 2006 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/Contributions	Capital Grants/Contributions
Local Development Financing Authority - Public works	\$ 500	\$ -	\$ -	\$ -
Tax Increment Financing Authority - Public works	12,144,468	-	-	-
Brownfield Redevelopment Authority - Public works	10,926,752	-	-	867,347
Downtown Development Authority - Public works	1,569,930	-	-	904,589
Housing Commission	15,483,724	6,014,890	7,681,373	1,617,606
Total component unit activities	<u>\$ 40,125,374</u>	<u>\$ 6,014,890</u>	<u>\$ 7,681,373</u>	<u>\$ 3,389,542</u>
General revenues:				
Capture taxes				
Interest				
Gain (loss) on sale of assets				
Other				
Total general revenues				
Change in Net Assets (Deficit)				
Net Assets (Deficit) - Beginning of year, as restated (Note 1)				
Net Assets (Deficit) - End of year				

* Balances are as of March 31, 2006 for the Housing Commission and as of June 30, 2006 for the Taylor Community Development Corp., its component unit.

Component Units
Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets					
Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Total
\$ (500)	\$ -	\$ -	\$ -	\$ -	\$ (500)
-	(12,144,468)	-	-	-	(12,144,468)
-	-	(10,059,405)	-	-	(10,059,405)
-	-	-	(665,341)	-	(665,341)
-	-	-	-	(169,855)	(169,855)
(500)	(12,144,468)	(10,059,405)	(665,341)	(169,855)	(23,039,569)
47,294	9,714,763	457,626	431,696	-	10,651,379
2,518	429,475	398,535	18,907	141,355	990,790
-	(612,267)	-	-	-	(612,267)
-	-	-	-	392,401	392,401
49,812	9,531,971	856,161	450,603	533,756	11,422,303
49,312	(2,612,497)	(9,203,244)	(214,738)	363,901	(11,617,266)
122,916	(26,977,785)	(1,156,179)	(958,130)	8,736,249	(20,232,929)
<u>\$ 172,228</u>	<u>\$ (29,590,282)</u>	<u>\$ (10,359,423)</u>	<u>\$ (1,172,868)</u>	<u>\$ 9,100,150</u>	<u>\$ (31,850,195)</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Taylor, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Taylor, Michigan:

Reporting Entity

The City of Taylor, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Presented Component Units - The Taylor Building Authority is governed by a board that is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

The 23rd Judicial District Court is reported within the Trust and Agency Fund. Although it is legally separate from the City, it is reported as if it were part of the primary government because of the fiduciary relationship it has with the City.

Discretely Presented Component Units - The Local Development Financing Authority and the Tax Increment Financing Authority (the "Authorities") were created to promote economic development within a seven-square mile district of the City and are funded primarily by property tax revenue captures. The Authorities are governed by 11-member and 13-member boards, respectively, and are appointed by the mayor and confirmed by the City Council.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within that district. The DDA's governing body, which consists of 13 members, is appointed by the mayor and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Brownfield Redevelopment Authority was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the 24-square mile boundary of the City. The Brownfield Redevelopment Authority is funded primarily by property tax revenue captures. The Brownfield Redevelopment Authority is governed by a 13-member board that is appointed by the mayor and confirmed by the City Council.

Separate financial statements for the above discretely presented component units are not prepared.

The Taylor Housing Commission is a nonprofit corporation that was organized under the laws of the State of Michigan to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). The Taylor Housing Commission operates with a fiscal year ended March 31. The Taylor Housing Commission is governed by a five-member board that is appointed by the mayor and confirmed by the City Council.

The Taylor Community Development Corporation (TCDC) is a nonprofit organization formed by its sole member, the Taylor Housing Commission, to acquire, renovate, and operate certain apartment complexes located within the city of Taylor, Michigan. The City acquired these apartment complexes, now known as the Villages of Taylor (the "Project"), and then donated the complexes to the TCDC. The TCDC is operated by a seven-member board of directors appointed by the Taylor Housing Commission. The TCDC is a component unit of the Taylor Housing Commission.

The Project is operated and regulated by a use agreement with the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project's major program is its Section 8 Housing Assistance Payments agreements with HUD. During the year ended June 30, 2006, rental revenue from HUD totaled \$7,563,763, representing 55 percent of net rental revenue.

A complete financial statement for the Taylor Housing Commission can be obtained at 15270 Plaza South, Taylor, MI 48180.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City's only major fund for June 30, 2006 is the General Fund.

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Taylor Sportsplex Fund - The Taylor Sportsplex Fund accounts for the activity of the Taylor Sportsplex, which primarily is the revenue related to charges for services and rentals along with the expenses of maintaining and operating the Taylor Sportsplex.

Golf Courses Fund - The Golf Courses Fund accounts for the activity related to the City's two golf courses, Taylor Meadows and Lakes of Taylor.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the City's two defined benefit pension plans, including the Police and Fire Retirement System and the General Employees' Pension Plan. The General Employees' Pension Plan is audited as of December 31, 2005. Therefore, the General Employees' Pension Plan is included in this report as of December 31, 2005. The plans accumulate resources for pension benefit payments to qualified employees.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City's Agency Funds are its Tax Receiving Fund and the 23rd District Court Fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales, rentals, and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative and operating expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on July 1, 2005, and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$1,283,525,882, on which taxes levied consisted of 8.4211 mills for operating purposes, 0.8862 mills for library services, 3.6500 mills for public safety pension, 1.3409 mills for disposal authority, 2.6591 mills for garbage and rubbish services, 0.0384 mills for publicity services, 2.700 mills for the building authority, 2.1871 for EPA debt, and .9601 mills for the Southend Project. This resulted in approximately \$10,800,000 for operating purposes, \$1,100,000 for library services, \$4,700,000 for public safety pension, \$1,700,000 for disposal authority, \$3,400,000 for garbage and rubbish services, \$49,000 for publicity services, \$3,500,000 for the building authority, \$2,800,000 for EPA debt, and \$1,500,000 for the Southend Project. These amounts are recognized in the respective General, Debt Service, and Enterprise Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Unspent bond proceeds of the Capital Projects Funds and Downtown Development Authority Fund are required to be set aside for construction. In addition, restricted assets also include assets held at Wayne County.

Restricted deposits in the Taylor Housing Commission represents assets held under various bond agreements in a separate account for replacement of property and other project expenditures as approved by the mortgagor. Restricted deposits are held in a separate account and generally are not available for operating purposes. During the year ended June 30, 2006, withdrawals of \$695,204 were taken from the replacement reserve.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10-65 years
Buildings	15-50 years
Sanitary sewer system	15-50 years
Water mains and meters	15-67 years
Improvements other than buildings	20 years
Machinery and equipment	2-20 years
Vehicles	4-10 years
Furniture and fixtures	10-20 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets - The Housing Commission's beginning net assets were restated from \$2,743,831 to \$2,735,226 to correct equity transfers and other errors.

Note 1 - Summary of Significant Accounting Policies (Continued)

Beginning net assets of the General Employees' Pension Plan have been restated from \$51,318,249 to \$47,006,453 to appropriately record annuity contracts.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers, debt proceeds, bond premiums, and sales of fixed assets have been included in the "revenue" and/or "expenditure" categories, rather than as "other financing sources (uses)". All annual appropriations lapse at fiscal year end. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council.

The budget process is initiated in January, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the mayor on or before March 1. During the month of March, the mayor reviews the appropriation requests, meets with the departments, and puts together the budget. The budget is submitted to the City Council on or before April 1. During the next month, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than May 1.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

The amount of encumbrances outstanding at June 30, 2006 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Taylor incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - General and administrative expenditures	<u>\$ 791,275</u>	<u>\$ 862,960</u>

Fund Deficits - There are no fund deficits on the modified accrual basis at June 30, 2006. The component units are presented on the full accrual basis in the basic financial statements, resulting in deficits on that basis in the Tax Increment Financing Authority, Brownfield Redevelopment Authority, and Downtown Development Authority.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Note 3 - Deposits and Investments (Continued)

The City has designated five banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$11,978,539 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had \$11,731,634 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity; U.S. Treasury bills and U.S. Treasury notes or bonds must mature within one year. The General Employees' Pension Plan does not restrict investment maturities, other than fixed income portfolios which can only be purchased with less than a 20-year maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value	Less than One year	1 to 5 Years	6 to 10 Years	More than 10 Years
Primary Government					
Bank investment pools	\$ 9,718	\$ 9,718	\$ -	\$ -	\$ -
Component Units					
Bank investment pools	3,090,413	3,090,413	-	-	-
General Employees' Pension Plan					
Corporate bonds	5,288,870	759,362	4,007,854	521,654	-
U.S. government securities	11,031,859	4,241,132	2,264,247	3,345,585	1,180,895
Police and Fire Retirement System					
Corporate bonds	5,316,326	-	1,826,858	3,489,468	-
Asset-backed securities	2,517,583	-	1,457,759	370,942	688,882
U.S. government securities	20,313,253	4,326,134	8,087,189	2,061,761	5,840,169

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. The General Employee's Pension Plan's investment policy does not restrict investment ratings, other than convertible securities which should be rated B- or higher at time of purchase and fixed income securities which should be rated BBB- or higher at time of purchase. In addition, asset-backed securities, mortgage-backed securities, and CMOs should be rated AAA at the time of purchase. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value				Rating	Rating Organization
	Primary Government	Component Units	Police and Fire Retirement System	General Employees' Pension Plan		
Corporate bonds	\$ -	\$ -	\$ 447,189	\$ 141,742	Aaa	Moody's
Asset-backed securities	-	-	2,204,329	-	Aaa	Moody's
U.S. government securities	-	-	1,670,239	-	Aaa	Moody's
Corporate bonds	-	-	781,319	310,378	A1	Moody's
Corporate bonds	-	-	611,975	100,202	A2	Moody's
Corporate bonds	-	-	162,554	1,471,422	A3	Moody's
Corporate bonds	-	-	-	310,764	Aa1	Moody's
Corporate bonds	-	-	328,105	276,524	Aa2	Moody's
Corporate bonds	-	-	1,479,036	558,174	Aa3	Moody's
Corporate bonds	-	-	-	546,918	Ba1	Moody's
Corporate bonds	-	-	579,732	424,122	Baa1	Moody's
Corporate bonds	-	-	628,371	333,268	Baa2	Moody's
Corporate bonds	-	-	298,045	815,356	Baa3	Moody's
Asset-backed securities	-	-	313,254	-	Not Rated	N/A
U.S. government securities	-	-	5,881,309	1,842,324	Not Rated	N/A
Pooled investments	-	-	23,037,595	-	Not Rated	N/A
Bank investment pools	1,651,924	-	-	-	A3	Moody's
Bank investment pools	148,064	3,090,413	-	-	AAA	S&P
Bank investment pools	11,915,857	3,643,076	-	-	Not Rated	N/A
Bank investment pools	-	146,110	-	-	A1/PI	Moody's

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and the governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue recorded is as follows:

	Unavailable	Unearned	Total
Delinquent property taxes	\$ 100,000	\$ -	\$ 100,000
Special assessments	223,057	7,342,042	7,565,099
Grant receivables	12,208	-	12,208
ALS receivables	236,035	-	236,035
Other	170,308	-	170,308
Total	<u>\$ 741,608</u>	<u>\$ 7,342,042</u>	<u>\$ 8,083,650</u>

In addition, the component units have recorded \$197,257 of deferred revenue which relates to unearned grant revenue.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

Governmental Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 21,552,512	\$ 446,098	\$ (22,216)	\$ -	\$ 21,976,394
Construction in progress	19,178,001	13,643,412	(5,901)	(22,560,201)	10,255,311
Subtotal	40,730,513	14,089,510	(28,117)	(22,560,201)	32,231,705
Capital assets being depreciated:					
Roads and sidewalks	216,745,393	897,924	(120,000)	6,261,791	223,785,108
Buildings and improvements	46,276,491	223,815	-	15,448,929	61,949,235
Other improvements	5,560,314	-	-	508,793	6,069,107
Machinery and equipment	30,492,414	1,865,284	(440,059)	340,688	32,258,327
Subtotal	299,074,612	2,987,023	(560,059)	22,560,201	324,061,777
Accumulated depreciation:					
Roads and sidewalks	119,762,214	4,467,904	(120,000)	-	124,110,118
Buildings and improvements	13,555,797	1,400,806	-	-	14,956,603
Other improvements	2,331,372	297,608	-	-	2,628,980
Machinery and equipment	16,351,845	2,677,959	(383,643)	-	18,646,161
Subtotal	152,001,228	8,844,277	(503,643)	-	160,341,862
Net capital assets being depreciated	147,073,384	(5,857,254)	(56,416)	22,560,201	163,719,915
Net capital assets	<u>\$ 187,803,897</u>	<u>\$ 8,232,256</u>	<u>\$ (84,533)</u>	<u>\$ -</u>	<u>\$ 195,951,620</u>

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Additions	Disposals	Reclassifications	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 10,457,311	\$ -	\$ (54,187)	\$ -	\$ 10,403,124
Construction in progress	2,083,144	485,244	(112,000)	(1,753,406)	702,982
Subtotal	12,540,455	485,244	(166,187)	(1,753,406)	11,106,106
Capital assets being depreciated:					
Land improvements	18,729,787	211,577	-	-	18,941,364
Machinery and equipment	4,002,688	696,570	(541,953)	-	4,157,305
Buildings and building improvements	32,193,254	-	-	-	32,193,254
Vehicles	636,399	-	(69,782)	-	566,617
Sanitary sewer system	106,275,607	921,681	-	95,044	107,292,332
Water mains and meters	31,367,393	127,937	(111,915)	1,658,362	33,041,777
Furniture and fixtures	1,307,365	-	-	-	1,307,365
Subtotal	194,512,493	1,957,765	(723,650)	1,753,406	197,500,014
Accumulated depreciation:					
Land improvements	9,070,388	937,864	(101)	-	10,008,151
Machinery and equipment	1,633,737	398,977	(302,209)	-	1,730,505
Buildings and building improvements	3,468,475	668,224	-	-	4,136,699
Vehicles	418,204	59,982	(52,337)	-	425,849
Sanitary sewer system	14,032,085	1,450,921	-	-	15,483,006
Water mains and meters	9,654,618	915,755	(111,915)	-	10,458,458
Furniture and fixtures	682,809	110,480	(3,269)	-	790,020
Subtotal	38,960,316	4,542,203	(469,831)	-	43,032,688
Net capital assets being depreciated	155,552,177	(2,584,438)	(253,819)	1,753,406	154,467,326
Net capital assets	<u>\$ 168,092,632</u>	<u>\$ (2,099,194)</u>	<u>\$ (420,006)</u>	<u>\$ -</u>	<u>\$ 165,573,432</u>

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

The component unit capital assets are composed of the following:

	LDFA	TIFA	BRDA	DDA	Housing Commission	Total
Capital assets not being depreciated -						
Land	\$ 17,745	\$ 12,287,860	\$ 77,187	\$ 814,355	\$ 2,843,607	\$ 16,040,754
Capital assets being depreciated:						
Land improvements	-	265,813	-	88,000	4,431,158	4,784,971
Vehicles, machinery, and equipment	-	15,768	-	67,993	5,395,611	5,479,372
Building	-	-	-	-	31,204,834	31,204,834
Subtotal	-	281,581	-	155,993	41,031,603	41,469,177
Accumulated depreciation	-	(52,114)	-	(22,698)	(14,664,008)	(14,738,820)
Net capital assets being depreciated	-	229,467	-	133,295	26,367,595	26,730,357
Net capital assets	<u>\$ 17,745</u>	<u>\$ 12,517,327</u>	<u>\$ 77,187</u>	<u>\$ 947,650</u>	<u>\$ 29,211,202</u>	<u>\$ 42,771,111</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 859,914
Public safety	1,970,939
Public works	5,093,910
Economic development	34,117
Recreation and culture	885,397

Total governmental activities \$ 8,844,277

Business-type activities:

Water	\$ 1,031,407
Sewer	1,550,881
Golf	1,373,098
Sportsplex	586,817

Total business-type activities \$ 4,542,203

Component unit activities:

TIFA	\$ 13,291
DDA	7,799
Housing Commission	1,870,885

Total component unit activities \$ 1,891,975

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Land improvements - Component units	\$ 9,161,023	\$ 1,113,032
Street projects:		
Component units	10,729,024	1,763,576
Primary government	819,000	819,000
Total	<u>\$ 20,709,047</u>	<u>\$ 3,695,608</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Golf Courses Fund (major fund)	\$ 405,624
	Other nonmajor governmental funds	735,154
	Sewer Fund (major fund)	496,037
	Taylor Sportsplex Fund (major fund)	21,692
	Water Fund (major fund)	509,188
	Ecorse Creek Fund	4,215
	Total General Fund	2,171,910
Other nonmajor governmental funds	General Fund	15,244
	Other nonmajor governmental funds	679,786
	Total nonmajor governmental funds	695,030

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Ecorse Creek	Water Fund (major fund)	\$ 8,489
Sewer Fund (major fund)	Water Fund (major fund)	2,347,764
	Other nonmajor governmental funds	55,786
	Ecorse Creek	<u>411</u>
	Total Sewer Fund	2,403,961
Water Fund (major fund)	Ecorse Creek	150,515
	Sewer Fund (major fund)	1,781
	Other nonmajor governmental funds	<u>139,911</u>
	Total Water Fund	<u>292,207</u>
	Total	<u>\$ 5,571,597</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Receivable Fund	Payable Fund	Amount
Advances to/from Other Funds		
General Fund	Golf Courses Fund	<u>\$ 1,750,000</u>

The advance will be repaid based on anticipated revenue from the golf courses over the next six years.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfer Out - Other Nonmajor Governmental Funds
Transfer in - General Fund	\$ 161,105
Transfer in - Other nonmajor governmental funds	<u>2,629,686</u>
Total	<u><u>\$ 2,790,791</u></u>

The transfer in to the General Fund represents a reimbursement from an overpayment made during the previous fiscal year to finance the local road program. Remaining transfers were mainly between the City's two street funds to redistribute Act 51 revenue from the Major Streets Fund to the Local Streets Fund, where the funds were then spent.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
Governmental Activities							
Bonds and contractual obligations:							
2001 Certificates of Participation - Honeywell Project - Amount of issue - \$4,125,000	3.9%-5.0%	\$ 2,660,000	\$ -	\$ 400,000	\$ -	\$ 2,260,000	\$ 415,000
2001 Installment Purchase Agreement - Downriver Mutual Aid E911 - Amount of issue - \$7,250,000	6.45%	4,590,712	-	712,981	-	3,877,731	757,131
2004 Michigan Transportation Refunding Bonds - Amount of issue - \$1,220,000	3.0%-3.5%	1,220,000	-	290,000	-	930,000	300,000
Building Authority Bonds - Series 2000 - Amount of issue - \$10,475,000	4.7%-6.0%	5,065,000	-	530,000	-	4,535,000	550,000
2003 Building Authority Refunding Bonds - Amount of issue - \$2,570,000	2.0%-3.0%	1,770,000	-	425,000	-	1,345,000	430,000
Building Authority Public Facilities Bonds - Series 2003 - Amount of issue - \$13,750,000	2.5%-5.0%	13,245,000	-	515,000	-	12,730,000	530,000
Road loan - State Infrastructure Bank (SIB) - Racho Road - Amount of issue - \$260,000	4.0%	116,705	-	27,301	-	89,404	28,414
2004 Building Authority Public Facilities Bonds - Amount of issue - \$1,250,000	2.0%-4.75%	1,250,000	-	45,000	-	1,205,000	50,000
General Obligation Bonds - Series 2004 - Storm - Amount of issue - \$945,000	3.0%-4.4%	895,000	-	50,000	(145,000)	700,000	45,000
2005 Building Authority Public Facilities Bonds - Amount of issue - \$14,795,000	3.0%-5.0%	14,795,000	-	1,175,000	-	13,620,000	870,000
2005 Building Authority Refunding Bonds - Amount of issue - \$3,445,000	5.0%	3,445,000	-	-	-	3,445,000	-
Ecorse Creek Pollution Abatement Drain Note, 2004: Amount of issue - \$249,642	3.59%	249,642	-	100,602	-	149,040	50,301
Deferred costs of financing		(560,004)	-	(46,667)	-	(513,337)	(46,667)
Other long-term obligation - Compensated absences		5,918,597	1,090,030	1,489,090	-	5,519,537	1,800,000
Total governmental activities		<u>\$ 54,660,652</u>	<u>\$ 1,090,030</u>	<u>\$ 5,713,307</u>	<u>\$ (145,000)</u>	<u>\$ 49,892,375</u>	<u>\$ 5,779,179</u>
Business-type Activities							
General obligation bonds:							
Building Authority Bonds - Series 2000 - Amount of issue - \$5,525,000	4.7%-6.0%	\$ 2,840,000	\$ -	\$ 295,000	\$ -	\$ 2,545,000	\$ 310,000
2005 Building Authority Refunding Bonds - Amount of issue - \$1,870,000	5.0%	1,870,000	-	-	-	1,870,000	-
General Obligation Bonds - Series 2004 - Water and Sewer - Amount of issue - \$1,655,000	3.0%-4.4%	1,565,000	-	90,000	145,000	1,620,000	95,000
E-Z - Go Textron Financial Lease - Amount of issue - \$477,981	5.50%	275,213	-	275,213	-	-	-
1994 Downriver Sewage Disposal System Bonds - Amount of issue - \$81,842,781	Various	60,698,874	931,077	3,569,707	-	58,060,244	3,673,492
Municipal Purchase Agreement - Amount of issue \$563,520	3.58%	-	563,520	-	-	563,520	128,520
Other long-term obligation - Compensated absences		501,110	2,384	50,111	-	453,383	45,338
Total business-type activities		<u>\$ 67,750,197</u>	<u>\$ 1,496,981</u>	<u>\$ 4,280,031</u>	<u>\$ 145,000</u>	<u>\$ 65,112,147</u>	<u>\$ 4,252,350</u>

Note 7 - Long-term Debt (Continued)

Component Units	Interest Rate Range	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
TIFA Bonds - 2000-A HUD Section 108 Loan - Senior Activities Center - Amount of issue - \$1,500,000	Various	\$ 1,020,000	\$ -	\$ 120,000	\$ -	\$ 900,000	\$ 120,000
Tax Increment Bonds - Series 1998 Refunding	4.55%-4.85%	11,695,000	-	1,735,000	-	9,960,000	1,815,000
Land Contract - Alert Kennel	6.0%	875,000	-	100,000	-	775,000	100,000
Tax Increment Bonds - Series 2001	3.9%-5.5%	33,075,000	-	1,060,000	-	32,015,000	1,150,000
Total TIFA		46,665,000	-	3,015,000		43,650,000	3,185,000
Brownfield Redevelopment Tax Increment Bonds, tax exempt - Series 2006 - Amount of issue - \$3,100,000	5.35%-6.0%	-	3,100,000	-	-	3,100,000	95,000
Brownfield Redevelopment Revenue Bonds, tax exempt - Series 2005 - Amount of issue - \$11,080,000	3.625%-5.00%	11,080,000	-	-	-	11,080,000	-
Brownfield Redevelopment Revenue Bonds, taxable Series 2005 - Amount of issue - \$3,080,000	4.40%-5.30%	3,080,000	-	-	-	3,080,000	-
Total Brownfield		14,160,000	3,100,000	-	-	17,260,000	95,000
DDA Bonds - Downtown Development Bond - Series 2002	3.25%-4.7%	2,290,000	-	80,000	-	2,210,000	85,000
Housing Commission - Bonds and mortgage payable	Various	29,791,076	-	518,871	-	29,272,205	394,439
Total component units		\$ 92,906,076	\$ 3,100,000	\$ 3,613,871	\$ -	\$ 92,392,205	\$ 3,759,439
Total City debt		\$ 215,316,925	\$ 5,687,011	\$ 13,607,209	\$ -	\$ 207,396,727	\$ 13,790,968

Component Unit Debt

The Housing Commission's debt represents the debt owed by its component unit, the TCDC. The debt represents \$24,765,000 of MSHDA bonds, a mortgage loan, and commercial loans payable. The debt is comprised mainly of Michigan State Housing Development Authority (MSHDA) Limited Obligation Multifamily Housing Revenue Bonds, Series 2003A (the "Bonds"). In 2002, the TCDC formed three single-member limited liability companies, of which the TCDC is the sole member. The Ponds of Taylor Limited Dividend Housing Association LLC (the "Ponds"), The Parks of Taylor Limited Dividend Housing Association LLC (the "Parks"), and the Courtyards of Taylor Limited Dividend Housing Association LLC (the "Courtyards") were formed with their sole assets to be those of each corresponding apartment complex. On this same date, the Parks, Ponds, and Courtyards entered into agreements to issue the MSHDA bonds and to obtain taxable supplemental real estate loans.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

The Bonds have a tax-exempt variable interest rate that is determined weekly based on the remarketing agent's submitting the bonds to the market for bidding. During the audit period, the weekly interest rate fluctuated and averaged approximately 2.80 percent (APR). The interest on the bonds is due monthly, and they also have principal reserve (sinking fund) requirements that begin on the dates noted above. The interest rate on the taxable loans is fixed throughout the term. Their principal and interest payment is also paid monthly. The respective loans are secured by all of the assets of each respective LLC.

The fair value of the bonds and commercial loans payable is estimated based on the current rates offered to the TCDC for debt of the same remaining maturities. At June 30, 2006, the fair value of the bonds approximates the amounts recorded in the financial statements.

In September 2004, the TCDC obtained a commercial mortgage with a bank for \$2,500,000 in order to finance the demolition of the Springs Apartment buildings. The mortgage requires monthly payments of \$14,603 including interest of 5.68 percent per annum until October 1, 2013, when the remaining unpaid principal balance is due. The balance outstanding on this mortgage at June 30, 2006 was \$2,445,310.

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 4,025,846	\$ 1,973,376	\$ 5,999,222	\$ 4,207,012	\$ 1,608,514	\$ 5,815,526	\$ 3,759,439	\$ 4,021,444	\$ 7,780,883
2008	4,207,253	1,814,755	6,022,008	4,351,345	1,526,910	5,878,255	4,033,069	3,876,765	7,909,834
2009	4,411,556	1,639,738	6,051,294	4,473,183	1,410,687	5,883,870	4,268,140	3,693,161	7,961,301
2010	3,739,710	1,457,644	5,197,354	4,589,243	1,289,992	5,879,235	4,768,159	3,484,406	8,252,565
2011	3,546,810	1,277,621	4,824,431	4,582,361	1,066,546	5,648,907	5,344,626	3,251,127	8,595,753
2012-2016	14,715,000	3,641,391	18,356,391	24,436,565	4,125,912	28,562,477	19,530,673	13,116,139	32,646,812
2017-2021	7,160,000	1,692,393	8,852,393	17,765,260	1,149,448	18,914,708	22,210,623	8,173,081	30,383,704
2022-2026	3,080,000	411,563	3,491,563	253,795	16,014	269,809	9,762,356	4,346,309	14,108,665
2027-2031	-	-	-	-	423	423	12,499,037	2,295,131	14,794,168
2032-2036	-	-	-	-	-	-	6,216,083	332,343	6,548,426
Total	\$ 44,886,175	\$ 13,908,481	\$ 58,794,656	\$ 64,658,764	\$ 12,194,446	\$ 76,853,210	\$ 92,392,205	\$ 46,589,906	\$ 138,982,111

Note 7 - Long-term Debt (Continued)

In conjunction with the issuances of \$19,570,000 and \$36,000,000 of Tax Increment Financing Authority (TIFA) bonds Series 1998 and 2001, respectively, the component unit is required to maintain debt service reserves in the amounts of \$996,000 and \$3,448,681, respectively. In order to cover the reserve requirement, the TIFA component unit has obtained insurance coverage totaling \$5,310,681 for this purpose. In addition to the reserves and in conjunction with the above debt issues, the City has agreed to certain covenants, including, but not limited to, restriction on amendments to the TIFA plan districts and continued compliance with the State of Michigan regulations and statutes affecting the TIFA bond indenture.

Defeased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2006, the City's portion of bonds outstanding that are considered defeased approximates \$18,240,000 for governmental activities and \$9,835,000 for component units.

No Commitment Debt - Excluded from long-term debt are bonds issued under the Economic Development Corporation Act of 1974, as amended, which authorizes the formation of economic development corporations and their participation in economic development projects in the City. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities	Component Units
Unspent bond proceeds and related interest	\$ 310,912	\$ -	\$ 64,659
Deposits held at Wayne County	-	11,240,491	-
Restricted deposits - Cash	665,383	-	94,706
Restricted deposits held by lender	-	-	2,857,054
Total restricted assets	<u>\$ 976,295</u>	<u>\$ 11,240,491</u>	<u>\$ 3,016,419</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical and property claims and for risk related to torts and errors and omissions and is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2006	2005
Unpaid claims - Beginning of year	\$ 103,856	\$ 46,539
Incurred claims - Including claims incurred but not reported	(252,281)	(310,063)
Claim payments	<u>443,442</u>	<u>367,380</u>
Unpaid claims - End of year	<u>\$ 295,017</u>	<u>\$ 103,856</u>

Note 10 - Defined Benefit Pension Plan

Plan Description

Police and Fire Retirement System - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers almost all police and fire employees of the City. The system provides retirement disability and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 184 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 157 current active employees. The plan does not issue a separate financial report.

General Employees' Pension Plan - The General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers all employees other than court and police and fire employees. The system provides retirement disability and death benefits to plan members and their beneficiaries. At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of 201 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 186 current active employees. The plan does not issue a separate financial report.

Municipal Employees' Retirement System of Michigan - The City also participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all 23rd District Court employees of the City. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

Police and Fire Retirement System, General Employees' Pension Plan, and Municipal Employees' Retirement System of Michigan - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Note 10 - Defined Benefit Pension Plan (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates.

Annual Pension Cost

Police and Fire Retirement System - For the year ended June 30, 2006, the City's contribution of approximately \$2,943,000 equaled the annual pension cost, and was made subsequent to June 30, 2006. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.6 percent per year compounded annually, of which 5.0 percent is attributable to inflation, (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.1 percent to 3.0 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 to 23 years.

General Employees' Pension Plan - For the year ended December 31, 2005, the City's annual pension cost of approximately \$1,123,000 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an addendum to the actuarial valuation at December 31, 2003 using the aggregate cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, of which 2.5 percent is attributable to inflation, (b) projected salary increases of 2.5 percent per year compounded annually, attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined based on market value. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period.

Note 10 - Defined Benefit Pension Plan (Continued)

Municipal Employees' Retirement System of Michigan - For the year ended June 30, 2006, the City's actual pension cost of \$39,895 was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003 using the entry age normal cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, 4.5 percent attributable to inflation (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Reserves

As of June 30, 2006, the plans' legally required reserves have been fully funded as follows:

Police and Fire Retirement System:

Reserve for employees' contributions	\$ 7,050,482
Reserve for retired benefit payments	88,611,945

General Employees' Pension Plan - Reserve for employees' contributions

6,376,987

Three-year trend information for the Police and Fire Retirement System is as follows:

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension cost (APC)	\$ 2,943,000	\$ 2,497,000	\$ 2,000,000
Percentage of APC contributed	100.0%	100.0%	100.0%

City of Taylor, Michigan

Notes to Financial Statements June 30, 2006

Note 10 - Defined Benefit Pension Plan (Continued)

Three-year trend information for the Municipal Employees' Retirement System of Michigan is as follows:

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension cost (APC)	\$ 39,895	\$ 39,415	\$ 32,151
Percentage of APC contributed	100.0%	100.0%	100.0%
	Calendar Year Ended December 31		
	2005	2004	2003
Actuarial value of assets	\$ 1,883,048	\$ 1,731,501	\$ 1,535,501
Actuarial accrued liability (AAL)			
(entry age)	\$ 1,993,216	\$ 1,832,652	\$ 1,786,784
Unfunded AAL (UAAL)	\$ 110,168	\$ 101,151	\$ 251,283
Funded ratio	94.5%	94.5%	85.9%
Covered payroll	\$ 690,327	\$ 675,551	\$ 733,427
UAAL as a percentage of covered payroll	15.96%	15.00%	34.26%

Three-year trend information for the General Employees' Pension Plan is as follows:

	Year Ended December 31		
	2005	2004	2003
Annual pension cost (APC)	\$ 1,123,000	\$ 1,133,000	\$ 641,000
Percentage of APC contributed	100.0%	100.0%	100.0%

Note 11 - Defined Contribution Plan

The City provides benefits to recently hired employees that are not eligible for the defined benefit plans through a defined contribution plan established July 1, 2003. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of hire. As established by various collective bargaining agreements, the employees are permitted to contribute up to 4 percent of their pretax earnings, and up to 25 percent of their after-tax earnings. The City contributes between 25 percent and 200 percent of no greater than 4 percent of the employee contributions as an employer match. The amounts in the employee's account, including earnings and employer match, are fully vested after five years of service.

The City's total payroll during the current year was \$29,062,665. The current year contribution was calculated based on covered payroll of \$829,658, resulting in an employer contribution of \$32,416 and employee contributions of \$33,186.

Note 12 - Contingent Liabilities

The City has been named as a defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at June 30, 2006.

The City has also been named as a defendant in a lawsuit involving the reimbursements of costs involving the relocation of utility structures as a part of the reconstruction of Telegraph Road. The potential loss to the City is expected to range from approximately \$2.4 million to \$4.0 million.

Note 12 - Contingent Liabilities (Continued)

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of a consent decree, the communities will be required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$324,000,000, with the City's share estimated to be \$83,000,000. Pursuant to the order of the U.S. District Court, the City will be entitled to judgment levy the amount necessary to pay the bond principal and interest amount. To date, approximately \$41,100,000 has been collected through the property tax levy for debt payments. As of June 30, 2006, the City has recorded approximately \$58,000,000 in remaining debt outstanding related to the required projects. During 2007, two additional bonds will be issued approximating \$5,500,000.

Note 13 - Other Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 383 retirees are eligible, including 29 Water and Sewer Commission employees. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$3,461,000 paid out of the General Fund, including approximately \$299,000 for Water and Sewer Commission retirees, which was reimbursed to the General Fund out of that Enterprise Fund.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 14 - Use Agreement

The TCDC and HUD entered into a use agreement that contains restrictions governing the operations of the Villages of Taylor. The use agreement requires the TCDC to make certain renovations specified in the Application for Transfer of Physical Assets submitted to HUD on March 12, 1998, maintain a replacement reserve with its mortgagor, relocate tenants as agreed, and to rent 77 percent of the project's units in accordance with affordability restrictions until September 1, 2012. In addition, the use agreement contains restrictions on the amount of rental charges and distributions.

The use agreement requires allocation of any distribution of income from operations or upon the sale of individual units as follows:

- Repayment of the National City Bank mortgage loan
- Repayment of the City's equity investment of \$17,633,330 plus 6 percent interest compounded annually, which accumulated to \$27,989,955 at June 30, 2006
- Repayment of HUD's equity investment of \$16,276,340 plus interest at 6 percent compounded annually. At June 30, 2006, this amount totaled \$25,819,643.
- Any remaining distribution to the City to fund programs that benefit low- and moderate-income residents

If the distributions are the result of a sale or refinancing of the project or a portion of the project, then the distribution first repays the mortgage, next equally pays the City's and HUD's equity investments, and finally pays the City for programs that benefit low- and moderate-income residents.

Required Supplemental Information

City of Taylor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 4,386,238	\$ 6,836,256	\$ 6,836,256	\$ -
Revenue				
Property taxes	27,724,000	27,777,500	27,930,326	152,826
Federal sources	280,220	460,304	407,479	(52,825)
State sources	378,616	942,952	751,114	(191,838)
State-shared revenue	8,159,474	8,041,244	8,043,087	1,843
Fees and permits	770,000	788,000	824,801	36,801
Fines and forfeitures	4,128,000	4,868,200	4,806,384	(61,816)
Charges for services	2,926,800	3,289,769	3,253,713	(36,056)
Interest income and rents	630,000	967,450	736,951	(230,499)
Other	12,285,300	9,578,384	8,837,715	(740,669)
Transfer from other funds	-	275,945	161,105	(114,840)
Total revenue	57,282,410	56,989,748	55,752,675	(1,237,073)
Expenditures				
General government	7,447,530	8,395,230	8,197,842	197,388
Public safety	19,684,920	19,469,329	19,067,017	402,312
Public works*	14,986,825	15,207,819	14,367,261	840,558
Recreation and culture	3,178,950	3,565,444	3,221,849	343,595
General administration	402,185	791,275	862,960	(71,685)
Employee benefits	11,582,000	12,689,960	11,847,022	842,938
Total expenditures	57,282,410	60,119,057	57,563,951	2,555,106
Fund Balance - End of year	\$ 4,386,238	\$ 3,706,947	\$ 5,024,980	\$ 1,318,033

* Public works includes debt service payments, which are included in debt service in the governmental fund statement of revenue, expenditures, and changes in fund balances for the year ended June 30, 2006.

City of Taylor, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2006 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
--------------------------------	-------------------------------------	---	------------------------------------	---------------------------------------	---------------------------	--

Police and Fire Retirement System

06/30/00	\$ 107.0	\$ 100.5	\$ (6.5)	106.5	\$ 9.1	-
06/30/01	109.9	106.8	(3.1)	102.9	9.6	-
06/30/02	108.0	110.5	2.5	97.7	10.6	23.6
06/30/03	104.0	113.0	9.0	92.0	10.6	85.0
06/30/04	100.4	117.1	16.7	85.7	11.2	149.1
06/30/05	99.0	123.4	24.4	80.2	12.6	193.6

General Employees' Retirement System

12/31/00	\$ 62.3	\$ 62.3	\$ -	100.0	\$ 9.8	-
12/31/01	60.6	60.6	-	100.0	10.0	-
12/31/02	57.3	57.3	-	100.0	10.3	-
12/31/03	55.5	55.5	-	100.0	10.1	-
12/31/04	54.1	54.1	-	100.0	10.3	-
12/31/05	52.8	52.8	-	100.0	10.1	-

City of Taylor, Michigan

Required Supplemental Information Schedule of Employer Contributions June 30, 2006

Police and Fire Retirement System

Year Ended June 30	Valuation Date June 30	Annual Required Contribution	Percentage Contributed
2001	2000	\$ 812,963	100
2002	2001	579,042	100
2003	2002	1,258,709	100
2004	2003	2,000,194	100
2005	2004	2,497,495	100
2006	2005	2,943,025	100

Year Ended December 31	Valuation Date December 31	Annual Required Contribution	Percentage Contributed
2001	1999	\$ -	100
2002	2000	-	100
2003	2001		100
2004	2002	641,358	100
2005	2003	1,133,342	100
2006	2004	1,122,958	100

City of Taylor, Michigan

Required Supplemental Information Schedule of Employer Contributions (Continued) June 30, 2006

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005 (Police and Fire Retirement System) and December 31, 2005 (General Employees' Pension Plan), the latest actuarial valuation dates, follows:

	Police and Fire Retirement System	General Employees' Pension Plan
Actuarial cost method	Individual entry age	Aggregate
Amortization method	Level percent, closed	Level dollar, closed
Remaining amortization period	10-23 years	12 years
Asset valuation method	4-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.6%	8.0%
Projected salary increases*	5.0%-8.0%	2.5%
*Includes inflation at	5.0%	2.5%
Cost of living adjustments	None	None

Other Supplemental Information

City of Taylor, Michigan

Special Revenue Funds

	Major Streets	Local Streets	Police Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy	DARE/ GREAT	Tree Replacement Fund	Local Law Enforcement Block Grant
Assets									
Cash and investments	\$ 952,124	\$ 720,973	\$ 739,179	\$ 40	\$ 99,667	\$ 1,605,210	\$ 61,778	\$ 13,558	\$ -
Accounts receivable - Special assessments	-	393	-	-	-	-	-	-	-
Due from other governmental units	479,495	170,225	-	210,572	-	-	-	-	-
Due from other funds	-	355,161	-	-	-	194	-	-	-
Restricted assets	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 1,431,619</u>	<u>\$ 1,246,752</u>	<u>\$ 739,179</u>	<u>\$ 210,612</u>	<u>\$ 99,667</u>	<u>\$ 1,605,404</u>	<u>\$ 61,778</u>	<u>\$ 13,558</u>	<u>\$ -</u>
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ 258,699	\$ 230,899	\$ 105,570	\$ 189,950	\$ 6,897	\$ 2,238	\$ -	\$ -	\$ -
Deferred revenue	-	393	-	-	-	-	55,512	-	-
Due to other funds	688,053	305,829	307,480	20,662	92,770	-	146	-	-
Total liabilities	946,752	537,121	413,050	210,612	99,667	2,238	55,658	-	-
Fund Balances									
Reserved for construction and other expenditures	-	-	-	-	-	1,603,166	6,120	13,558	-
Unreserved	484,867	709,631	326,129	-	-	-	-	-	-
Total fund balances	484,867	709,631	326,129	-	-	1,603,166	6,120	13,558	-
Total liabilities and fund balances	<u>\$ 1,431,619</u>	<u>\$ 1,246,752</u>	<u>\$ 739,179</u>	<u>\$ 210,612</u>	<u>\$ 99,667</u>	<u>\$ 1,605,404</u>	<u>\$ 61,778</u>	<u>\$ 13,558</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

Debt Service Funds				Capital Projects Fund			
General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA/ 911 Debt	2004 LTGO Capital Improvement Bond Fund	2003 TBA Project Fund	Total Nonmajor Governmental Funds	
\$ 68,059	\$ 12,525	\$ 22,437	\$ 89,706	\$ -	\$ -	\$ 4,385,256	
-	-	-	-	-	-	393	
-	-	-	-	-	-	860,292	
-	15,050	324,625	-	-	-	695,030	
-	-	-	665,383	310,912	-	976,295	
\$ 68,059	\$ 27,575	\$ 347,062	\$ 755,089	\$ 310,912	\$ -	\$ 6,917,266	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 794,253	
-	-	-	-	-	-	55,905	
-	-	-	-	195,697	-	1,610,637	
-	-	-	-	195,697	-	2,460,795	
-	-	-	-	115,215	-	1,738,059	
68,059	27,575	347,062	755,089	-	-	2,718,412	
68,059	27,575	347,062	755,089	115,215	-	4,456,471	
\$ 68,059	\$ 27,575	\$ 347,062	\$ 755,089	\$ 310,912	\$ -	\$ 6,917,266	

City of Taylor, Michigan

	Special Revenue						
	Major Streets	Local Streets	Police Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy	DARE/ GREAT
Revenues							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,538,316	\$ -
Licenses and permits	-	-	-	-	1,496,667	-	-
Federal sources	-	-	509,321	1,016,323	-	-	-
State sources	2,931,228	1,030,918	29,234	-	-	-	-
Interest and rent	35,285	8,013	58,348	-	6,557	329,347	2,037
DMA/911 revenue	-	-	-	-	-	-	-
Other	-	3,188	-	-	-	-	28,592
Total revenues	2,966,513	1,042,119	596,903	1,016,323	1,503,224	1,867,663	30,629
Expenditures							
Current:							
Public works and capital projects	1,111,409	1,936,903	-	-	1,503,224	-	-
Community development	-	-	-	1,016,323	-	-	-
Construction and development	242,971	483,038	-	-	-	13,130	-
Capital outlay and other	8,141	2,998	2,142,212	-	-	-	24,509
Debt service	32,056	85,071	-	-	-	1,750,339	-
Total expenditures	1,394,577	2,508,010	2,142,212	1,016,323	1,503,224	1,763,469	24,509
Excess of Revenues Over (Under) Expenditures	1,571,936	(1,465,891)	(1,545,309)	-	-	104,194	6,120
Other Financing Sources (Uses)							
Transfers in	-	2,305,061	-	-	-	-	-
Transfers out	(2,629,686)	(160,160)	(945)	-	-	-	-
Total other financing sources (uses)	(2,629,686)	2,144,901	(945)	-	-	-	-
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,057,750)	679,010	(1,546,254)	-	-	104,194	6,120
Non-exchange Transactions	489,039	-	-	-	-	-	-
Change in Fund Balance	(568,711)	679,010	(1,546,254)	-	-	104,194	6,120
Fund Balances - Beginning of year	1,053,578	30,621	1,872,383	-	-	1,498,972	-
Fund Balances - End of year	\$ 484,867	\$ 709,631	\$ 326,129	\$ -	\$ -	\$ 1,603,166	\$ 6,120

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

Funds		Debt Service Funds				Capital Projects Fund		Total Nonmajor Governmental Funds
Tree Replacement Fund	Local Law Enforcement Block Grant	General Obligation Debt	1996 Michigan Transportation Fund Bond	Taylor Building Authority Debt	DMA/ 911 Debt	2004 LTGO Capital Improvement Bond Fund	2003 TBA Project Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,538,316
-	-	-	-	-	-	-	-	1,496,667
-	-	-	-	-	-	-	-	1,525,644
-	-	-	-	-	-	-	-	3,991,380
-	732	5,404	4,532	2,609,748	31,630	-	32,452	3,124,085
-	-	-	-	-	816,515	-	-	816,515
13,558	-	-	-	-	-	-	-	45,338
13,558	732	5,404	4,532	2,609,748	848,145	-	32,452	12,537,945
-	-	-	-	-	-	18,830	-	4,570,366
-	-	-	-	-	-	-	-	1,016,323
-	-	-	-	-	-	-	-	739,139
-	31,698	-	-	-	-	-	1,848,376	4,057,934
-	-	123,899	325,125	2,590,585	989,721	145,000	-	6,041,796
-	31,698	123,899	325,125	2,590,585	989,721	163,830	1,848,376	16,425,558
13,558	(30,966)	(118,495)	(320,593)	19,163	(141,576)	(163,830)	(1,815,924)	(3,887,613)
-	-	-	324,625	-	-	-	-	2,629,686
-	-	-	-	-	-	-	-	(2,790,791)
-	-	-	324,625	-	-	-	-	(161,105)
13,558	(30,966)	(118,495)	4,032	19,163	(141,576)	(163,830)	(1,815,924)	(4,048,718)
-	-	-	-	-	-	-	-	489,039
13,558	(30,966)	(118,495)	4,032	19,163	(141,576)	(163,830)	(1,815,924)	(3,559,679)
-	30,966	186,554	343,030	8,412	896,665	279,045	1,815,924	8,016,150
\$ 13,558	\$ -	\$ 68,059	\$ 347,062	\$ 27,575	\$ 755,089	\$ 115,215	\$ -	\$ 4,456,471

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2006

	Trust Funds			Agency Funds		
	Pension and Other Employee Benefit Plans					
	General		Total	23rd District		Total
	Police and Fire Retirement System	Employees' Pension Plan*		Tax Receiving	Court	
Assets						
Cash and equivalents	\$ 500	\$ 2,105,620	\$ 2,106,120	\$ 621,616	\$ 87,299	\$ 708,915
Investments:						
Corporate bonds	5,316,326	5,288,870	10,605,196	-	-	-
U.S. government securities	20,315,253	11,031,859	31,347,112	-	-	-
Common and preferred stock	41,070,446	29,636,658	70,707,104	-	-	-
Asset-backed securities	2,517,183	-	2,517,183	-	-	-
Money market	3,468,447	-	3,468,447	-	675,000	675,000
Mutual funds	23,037,595	-	23,037,595	-	-	-
Due from General Fund	3,002,608	69,416	3,072,024	-	-	-
Due from other governmental units	-	-	-	972,915	-	972,915
Accrued interest	295,392	212,241	507,633	-	-	-
Total assets	99,023,750	48,344,664	147,368,414	\$ 1,594,531	\$ 762,299	\$ 2,356,830
Liabilities						
Due to other governmental units	-	-	-	\$ 1,557,996	\$ 638,568	\$ 2,196,564
Cash bonds and deposits	-	-	-	-	123,731	123,731
Tax collections distributable	-	-	-	36,535	-	36,535
Total liabilities	-	-	-	\$ 1,594,531	\$ 762,299	\$ 2,356,830
Net Assets - Held in trust for pension and other employee benefits	\$ 99,023,750	\$ 48,344,664	\$ 147,368,414			

* Balances are as of December 31, 2005

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2006

	Police and Fire Retirement System	General Employees' Pension Plan*	Total
Additions			
Investment income:			
Interest and dividends	\$ 3,616,710	\$ 1,226,701	\$ 4,843,411
Net increase in fair value of investments	2,777,192	2,365,914	5,143,106
Less investment expenses	<u>(161,414)</u>	<u>(246,622)</u>	<u>(408,036)</u>
Net investment income	6,232,488	3,345,993	9,578,481
Contributions:			
Employer	2,943,025	1,122,958	4,065,983
Employee	<u>718,301</u>	<u>558,664</u>	<u>1,276,965</u>
Total contributions	<u>3,661,326</u>	<u>1,681,622</u>	<u>5,342,948</u>
Total additions - Net of investment expenses	9,893,814	5,027,615	14,921,429
Deductions			
General and administrative	29,042	52,821	81,863
Benefit payments	<u>8,292,437</u>	<u>3,636,583</u>	<u>11,929,020</u>
Total deductions	<u>8,321,479</u>	<u>3,689,404</u>	<u>12,010,883</u>
Net Increase in Net Assets	1,572,335	1,338,211	2,910,546
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year, as restated	<u>97,451,415</u>	<u>47,006,453</u>	<u>144,457,868</u>
End of year	<u>\$ 99,023,750</u>	<u>\$ 48,344,664</u>	<u>\$ 147,368,414</u>

* Balances are as of December 31, 2005

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Net Assets Component Unit - Housing Commission Year Ended June 30, 2006

	Housing Commission*	Taylor Community Development Corporation*	Total
Assets			
Cash and investments	\$ 804,592	\$ 1,009,959	\$ 1,814,551
Due from other governmental units	-	197,771	197,771
Accounts receivable	2,038	79,500	81,538
Deferred charges	-	4,769,552	4,769,552
Prepaid expenses and other assets	18,691	642,010	660,701
Restricted assets	-	2,951,760	2,951,760
Capital assets	2,337,813	26,873,389	29,211,202
Total assets	3,163,134	36,523,941	39,687,075
Liabilities			
Accounts payable	-	660,498	660,498
Tenant security deposits	29,613	342,378	371,991
Accrued liabilities and other	10,243	271,988	282,231
Long-term debt	-	29,272,205	29,272,205
Total liabilities	39,856	30,547,069	30,586,925
Net Assets			
Invested in capital assets - Net of related debt	2,337,813	1,034,308	3,372,121
Restricted	-	3,053,557	3,053,557
Unrestricted	785,465	1,889,007	2,674,472
Total net assets	<u>\$ 3,123,278</u>	<u>\$ 5,976,872</u>	<u>\$ 9,100,150</u>

* Balances are as of March 31, 2006 for the Housing Commission and as of June 30, 2006 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Component Unit - Housing Commission Year Ended June 30, 2006

	Housing Commission*	Taylor Community Development Corporation*	Total
Revenue			
Rental income	\$ 277,007	\$ 5,737,883	\$ 6,014,890
Other income	3,531,331	4,150,042	7,681,373
Total revenue	3,808,338	9,887,925	13,696,263
Expenditures			
General administration	312,512	2,174,650	2,487,162
Housing assistance payments	2,615,633	-	2,615,633
Utilities	125,398	1,896,064	2,021,462
Operation and maintenance	196,130	3,649,921	3,846,051
Depreciation and amortization	142,011	1,747,912	1,889,923
Other	49,380	1,106,090	1,155,470
Total expenditures	3,441,064	10,574,637	14,015,701
Operating Income (Loss)	367,274	(686,712)	(319,438)
Nonoperating Revenue (Expenses)			
Other nonoperating income	8,322	384,079	392,401
Loss on sale of property	-	(18,632)	(18,632)
Interest income	12,456	128,899	141,355
Interest expense	-	(1,449,391)	(1,449,391)
Total nonoperating revenue (expenses)	20,778	(955,045)	(934,267)
Net Income (Loss) - Before capital contribution	388,052	(1,641,757)	(1,253,705)
Capital Contribution	-	1,617,606	1,617,606
Change in Net Assets	388,052	(24,151)	363,901
Net Assets - Beginning of year, as restated	2,735,226	6,001,023	8,736,249
Net Assets - End of year	<u>\$ 3,123,278</u>	<u>\$ 5,976,872</u>	<u>\$ 9,100,150</u>

* Balances are as of March 31, 2006 for the Housing Commission and as of June 30, 2006 for the Taylor Community Development Corp., its component unit.



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December 12, 2006

Honorable Mayor and Members
of the City Council
City of Taylor
23555 Goddard Road
Taylor, MI 48180

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements for the City of Taylor for the year ended June 30, 2006. As a result of our audit, we offer the following observations and comments for your consideration:

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

General Fund

The General Fund total fund balance at June 30, 2006 decreased to approximately \$5,025,000 of which approximately \$3,059,000 has been reserved. The unreserved portion of fund balance, which totaled approximately \$1,966,000, declined almost 50% from 2005, and represents only 3 percent of 2007 budgeted expenditures. Going forward, the City will continue to face revenue restrictions/reductions for Headlee and Proposal A caps on property taxes and revenue sharing payments received from the State of Michigan. In addition, as discussed in previous years, the City's recurring operating expenditures in the General Fund continue to outpace recurring revenue sources. In the recently completed audit year ended June 30, 2006, this structural difference (excess of recurring expenditures over revenues) was approximately \$2,142,000. In fiscal year ended June 30, 2005 the structural difference was approximately \$3,043,000, and for 2006/2007 the budgeted difference is approximately \$1,600,000. Furthermore, along with the recurring structural financial challenges, health care costs and actuarial required pension contributions continue to significantly outpace the rate of inflation. As a result, there is an urgent need for City management and Council to critically assess the level of community services currently provided including the associated cost of those services. In particular, because labor related expenses including fringes comprise such a significant portion of the overall recurring operating expenses, they must continually be evaluated to assess the City's current and future ability to pay for these costs. Lastly, because the larger recurring revenue sources are generally limited to inflationary increases and certain less controllable expenses such as utilities, pension (for benefits previously awarded by past contracts), healthcare, etc. have recurring annual increases which outpace inflation, increases to other more controllable expenses need to be minimized to keep the City's operations viable.

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As the City is well aware, it continues to be critical to maintain a sufficient level of fund balance to enable management to adjust to both expected and unanticipated financial changes, such as you are currently experiencing. An adequate level of fund balance positions the City to address negative financial changes without disrupting the level of services provided to citizens or the City's ability to fund future obligations. We encourage the Mayor and Council to continue to actively monitor the financial position of the City to achieve budgeted results and plan for improving General Fund fund balance levels over an established future timeframe.

Recreational Proprietary Funds

The Golf Courses Fund and Taylor Sportsplex Fund continue to operate at a deficit on an annual fiscal year basis. Even after adjusting for non-cash outlays such as depreciation, these funds do not independently generate sufficient cash flows to fund operations, debt service requirements and future capital improvement needs. During the year ended June 30, 2006 the TIFA's contributed over \$200,000 of capital assets to the Golf Courses and provided approximately \$544,000 of support to fund the debt service requirements of the Taylor Sportsplex. In addition, the Golf Course Fund continues to owe the General Fund \$1,750,000 for a long-term advance. Our understanding is that the City is currently reviewing the 2007 calendar year budget within the Golf Courses fund in addition to other potential funding options, with the intent on developing a plan to repay the interfund loan balance and to help improve the financial outlook of the Golf Courses. In addition, we encourage the City to consider charging a reasonable interest rate to the Golf Course Fund for the loan balance.

FINANCIAL FORECASTS

As mentioned in previous council meetings and in consideration of the City's financial position and the current negative economic business climate, we strongly recommend the City create/update its three-to-five year operating plan and financial forecast that would include alternative scenarios the City could expect to encounter. The following are examples of different situations that will arise:

- Expected changes in employee workforce (contract expirations, renegotiations, attrition, etc.) including the projected costs of any employee labor contract adjustments
- The declining level of state shared revenue received including the vulnerability of the statutory portion of state shared revenue
- The expected levels of targeted capital and infrastructure expenditures including future debt service requirements
- The restricted growth of future property tax revenues
- Ability to provide future services consistent with today's level

In light of your General Fund fund balance level, recent municipal capital investments within the City, including future debt service commitments related to the road and infrastructure reconstruction programs and the construction and operations of new municipal facilities, the development of an operating plan and cash flow forecast is imperative. The City must critically assess all future costs on an ability to pay basis. Strong consideration should be given to identifying the recurring dedicated revenue sources that will support all budgeted cost increases. By preparing plans under different scenarios, the City would be better equipped to respond to expected and unexpected short-term and long-term financial constraints.

REVIEW OF INTERNAL CONTROLS

In planning and performing our audit of the financial statements of the City of Taylor for the year ended June 30, 2006, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters noted are only those that came to our attention and had our procedures in internal control related matters been more extensive, other matters may have been noted.

During our review of the bank reconciliation process, it was noted there was a delay of 30 to 90 days from the time the bank statement was received until the time the bank reconciliations were prepared during the first few months of the fiscal year. Upon further review of bank reconciliations during the latter half of the year, it appears that this problem was corrected as the bank reconciliations selected for testing were prepared within 60 days of month end.

STATE SHARED REVENUE

As you are aware, the ongoing budgetary challenges faced by the State of Michigan continue to negatively impact the City through its revenue-sharing payments. State-shared revenue accounted for approximately 15 percent of the City's General Fund revenue for the year ended June 30, 2006. This percentage has declined over the past several years due to the State's economic troubles.

The statutory formula sunsets in 2007, so the remaining statutory revenue sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village and township statutory revenue sharing.

The following table sets forth a history of your approximate revenue-sharing payments, based upon the State's fiscal year:

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$5,389,735	\$4,800,080	\$10,189,815	\$-
2001	\$5,941,001	\$4,274,319	\$10,215,320	\$25,505
2002	\$5,407,278	\$4,317,858	\$9,725,136	(\$464,679)
2003	\$4,758,632	\$4,390,958	\$9,149,590	(\$1,040,225)
2004	\$3,879,957	\$4,343,263	\$8,223,220	(\$1,966,595)
2005	\$3,686,673	\$4,446,914	\$8,133,587	(\$2,056,228)
2006	\$3,520,464	\$4,522,623	\$8,043,087	(\$2,146,728)
2007 est.	\$3,395,333	\$4,647,754	\$8,043,087	(\$2,146,728)

While significant declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the State's revenue structure. As of now, there appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

UPDATE ON BUSINESS TAX REFORM (AND ITS IMPACT ON LOCAL GOVERNMENT)

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget. The Legislature has created a "Joint Committee on Economic Growth" charged with submitting to the Legislature by December 1 recommendations on a replacement tax for the Single Business Tax. Also, ending and replacing the State's personal property tax, a significant revenue source to many local governments, has been added to the Committee's agenda.

These matters will receive considerable attention going forward and in 2007.

PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published annually by the State Tax Commission and is as follows:

2007	3.7%	2002	3.2%
2006	3.3%	2001	3.2%
2005	2.3%	2000	1.9%
2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%

As indicated above, growth in existing property taxable value is significantly limited due to Proposal A (an average of 2.48 percent annually over the past 10 years). This factor should be strongly considered when the City is involved in any long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite the City having a general operating charter mill cap of 9.5, currently the Headlee mills are limited to 8.4211 (a reduction of over 11 percent).

POSTEMPLOYMENT BENEFITS

As discussed in prior communications, two new accounting pronouncements were recently issued by the Governmental Accounting Standards Board (GASB). GASB Nos. 43 and 45 address the accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in fiscal year 2007-2008, the City will be required to measure its retiree health care liability through actuarial valuations that are to be performed biannually. These valuations will compute an "annual required contribution." The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. Once these benefits are measured, local governments will face the tough choice of advance funding these benefits (which some are doing now), remain on a pay-as-you go plan (which is the path for most local governments) or a combination thereof. The Finance Department has performed initial computations internally of an estimate of what the potential liability will be to the City, which came out to a significant amount. To provide local governments with additional funding

options, legislation has been introduced which would allow bonding as a funding tool. We will keep you updated as developments occur with this legislation.

The GASB pronouncements provide substantial incentive to fund the obligation in accordance with the annual actuarial recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded.

CABLE FRANCHISE FEES

The State of Michigan has joined a number of other states considering statewide cable T.V. franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable T.V. providers, and also would apply to new providers who would offer services through phone lines. This bill, which is unfavorable to local units of government, has been recently passed by both the State House and Senate and awaits the governor's signature or veto.

TASK FORCE REPORT ISSUED ON LOCAL GOVERNMENT FINANCE

In 2005, the governor commissioned a task force to further study Michigan's Municipal Finance Model. The Commission has completed their work and has released their report in May 2006. Findings of the report which are not surprising include:

- Revenue for local governments is flat, or declining due to reductions in state revenue sharing and the interaction of the Headlee Amendment and Proposal A. Mature urban centers have been impacted the hardest.
- While revenues have been restricted, many expenditures are increasing beyond the control of local government. The expenditures include, but are not limited to health care, pension liabilities, and public safety costs.
- The current finance system, based on obsolete revenue foundations, is not resilient or flexible enough to withstand out-migration of taxpayers, whether due to economic downturn or availability of developable land.
- Legacy costs of postemployment benefits to retired workers threaten to overtake the majority of available new revenue for local units.
- Deferring maintenance on critical infrastructure such as roads, sewers, water mains, and buildings, to meet ongoing increases in operating expenditures has left many local governments with crumbling infrastructure and growing future cost liabilities.

The full report can be accessed at: www.migfoa.org.

SPECIAL ROAD PROJECT MONIES

As part of the Governor's 2006/2007 budget package, \$80 million was proposed to assist local government to move forward on certain transportation projects and get greater access to Federal transportation matching funds. The Legislature approved the Governor's proposal as

Public Act 139, 140 and 141 of 2006. Michigan Department of Transportation officials are reviewing applications for the rest of the funding and the remaining recipients will be announced later this year.

GOVERNMENT WINS HEADLEE CHALLENGE

The Court of Appeals upheld a trial court decision in July 2006 (*A&E Parking vs. Wayne County Metro*, [COA docket No. 261046](#)) that the Wayne County Airport Authority (the "Airport Authority") has the right to charge user fees to the more than three dozen companies that sued the Airport Authority. The suit against the Airport Authority alleged that the fees charged to hotels, shuttle, rental car companies, and other users of the property that financially benefit from the airport's location should be deemed illegal taxes under the Headlee Amendment. In rendering their opinion in the Airport Authority's favor, the court considered the charges appropriate and were not taxes for the following reasons:

- State law permits fees
- The users such as car rental companies and hotels with shuttles get a benefit from the airport's existence
- The fees are not calculated arbitrarily and the users are not forced to pay the fees.
- The users could choose to take their business elsewhere and avoid the charge.

Despite the victory, it serves as a great reminder to local governments that fees must meet the tests established in the Bolt Court Case to avoid the classification of fees as unvoted taxes in violation of the Headlee Amendment.

MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (December 31, 2006) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

COMPONENT UNIT FINANCIAL UPDATE

During the current year, the Tax Increment Finance Authority, Brownfield Authority and Downtown Development Authority, had a combined decrease in net assets of approximately \$11,800,000 on a full accrual basis of accounting, increasing the overall net deficits in each of those Authorities. In addition, although each Authority was in a positive fund balance situation at the end of the year on a modified accrual basis, the Tax Increment Finance Authority's fund balance decreased by approximately \$,600,000 leaving fund balance of just under \$2,000,000 at June 30, 2006. The City should continue to monitor the Authority's fund balance closely when determining the critical nature of a proposed capital improvement project and whether the Authority represents the most favorable option to fund upcoming construction projects.

PUBLIC SAFETY AND GENERAL EMPLOYEE BENEFIT PLANS

During our review of the Police and Fire Retirement System, we noted that the overall funded ratio decreased from 92.0 percent to 80.2 percent during the period June 30, 2003 through June 30, 2005. However, during that same time period, the contributions into the System increased by \$1,238,000 (up 200%) to \$2,497,000 during the year ended June 30, 2005. The City contribution increased for the fiscal year ended 2006 to approximately \$2,900,000 (up 16%) and is expected to increase to approximately \$4,000,000 (up 38%) during 2007 according to the actuarial report. In addition, the cost of healthcare for public safety employees has doubled since 2001. City management and Council need to critically assess all employee benefit plans (pension and retiree health care) including public safety plans. This assessment must include an objective evaluation of benefits currently offered, the ability to continue to offer the current benefit package, recent plan investment performance, projected future millage increases (if applicable) to fund benefit costs and an overall analysis of the City's ability to control costs and pay for future benefits.

We also recommend that a summary of pension plan investment activities for public safety and general employees plans be provided to City management and Council on a annual or semi-annual basis. This will allow for a review of investment results and the ability to identify performance improvement opportunities and alternatives to help reduce the overall cost of the plans.

FEDERAL REVENUE

In conjunction with our testing of the federal expenditures during the current year, we offer the following comments specific to the individual grant identified:

Brownfield Cleanup Revolving Loan Fund

- During our review of the program, it was noted that the federal revenue is passed through the Brownfield Redevelopment Authority and awarded as a loan to other organizations. One of the two organizations receiving the funding is the I-94/Beverly LLC. The LLC, which is a component unit of the TCDC, signed an agreement to repay the Brownfield Redevelopment Authority for a loan in the amount of \$600,000. However, the amount passed through to the LLC was actually \$750,000. The Authority should revise the agreement and obtain new signatures from all parties to ensure the amount repaid to the Authority is equal to the amount actually loaned.
- During our review of the reporting requirements, we noted that the quarterly and annual financial status reports for this loan fund were not filed timely as mandated. We recommend the City appoint an individual to be responsible for the compliance reporting to ensure it is submitted when required to avoid any potential loss of current or future grant funding.

INTERNAL CONTROL CONSIDERATIONS

Water Loss – While reviewing water loss in current year, we noted water loss has improved over the past year. It is our understanding that the City will be conducting a water loss study in the upcoming year to help determine the principle causes of the water losses within the City. In addition, it is our understanding that when the permits are given for fire hydrant rentals, the

party who pays for the permit hooks the meter up to the hydrant, not City personnel. This could attribute to water loss within the City if the party renting the hydrant begins using the water without first attaching the meter to the hydrant. We encourage the City to consider implementing procedures where the City attaches the meter versus the renting party. We also encourage continued monitoring of water loss to ensure rates are set appropriately and assist with determining long range capital improvement plans.

Ticket Control – Police Department and District Court - We have previously discussed ticket control procedures with representatives from public safety and the District Court. In addition, it is our understanding that procedures were previously initiated between the Court and Police Department whereby the ticket log books would be regularly reconciled between the two entities. We strongly encourage the Police Department and the Court to actively and timely employ these procedures to provide adequate controls such as the following:

- Supervisory approval of ticket sequence issuance when an officer takes a book of tickets from the store room.
- Reconciling the ticket activity log book maintained at the Police Department to the Court files
- Adequate and timely follow-up procedures to identify and account for all missing tickets

Upon further discussion with Court personnel, while the reconciliation process was initiated, differences were unable to be resolved between the Court and Police Department so the reconciliation process ceased.

Administrative Charges to Major and Local Street Funds – Annually, administrative charges to the Major and Local Street fund cannot exceed 10 percent of total Act 51 revenue. During the 2005/2006 fiscal year, charges to these funds were less than 1 percent of Act 51 revenue. City management should review the current process for charging administrative cost to Major and Local Street Funds to verify the amounts charged are commensurate with the benefit received. Opportunities to increase administrative charges (within the required limits) should be considered where the underlying documentation supports additional charges.

Arbitrage Calculations – While auditing long-term debt, it came to our attention that the City does not have a process to formally evaluate the arbitrage rules. The City needs to make this a focus in calendar years where the collective debt issues are greater than \$5,000,000 in total. Arbitrage represents the excess of interest earned over the interest expensed on the applicable debt(s) which could be required to be repaid if certain conditions are not met as it relates to the spending of the debt proceeds.

Property Tax Receivables - During our audit, we noted that the City's accounting system does not track delinquent personal property taxes by tax year. Efforts should be made to determine the year of the delinquency and, certain receivables, generally those greater than 5 to 7 years old, should be written off. Annually, the accounting records should be reconciled to the Treasurer's office to ensure propriety of the amounts recorded.

Property Tax Payable – During our review of property taxes, we noted a liability of over \$400,000 owed to the County for EPA millage monies from the June 30, 2005 year, which were

not remitted as of June 30, 2006. We encourage the City to remit the payments to the respective authorities on a more timely basis.

Library Property Tax Levy – We noted the library expenditures over the past three years have been less than the revenues generated from the tax levy. As these amounts are accounted for in the General Fund, any excess revenue over expenditures must be reserved for future library costs. The City may wish to review its long-term plans related to the library, to ensure that the millage rates being levied are appropriate.

Ethical Policy – During our audit, it came to our attention that the City does not have a written ethical policy. Many federal grants are starting to require that a written ethical policy be in place in order to qualify or be in compliance with grant requirements. We recommend the City create and Council approve a policy to avoid potential loss of a future grant revenue due to the lack of an adopted ethical policy.

Investment Policy – The City has adopted an investment policy as required by Public Act 196 of 1997. In addition to the adoption of the investment policy, the Public Act requires that an annual investment report be reported to City Council. During the current year, the investment report for fiscal year ended June 30, 2006 was presented to the Council during November 2006. We encourage management to present the investment report to the Council in a more timely manner in the future to allow for potential changes in investments if warranted

Police and Fire Retirement System – During our review of the Police and Fire Retirement System's employee reserves, we noted that each employee has an individual card with the balance of their contributions as well as the interest credited, however, there is no consolidated total for all employees. We recommend the Retirement System compile this information to ensure the employee reserve in total is appropriately reported. Use of spreadsheet technology tools to track employee information may also add efficiency to the compilation process.

We would like to thank Mayor Priebe, Ms. Trueblood, Mr. Philo, and the entire Budget and Finance and Treasury Department staff again for their cooperation and assistance provided during the audit engagement. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Douglas G. Bohrer



Wendy N. Trumbull